

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying general purpose financial statements of the State of Colorado have been prepared in conformance with generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard setting body for establishing governmental accounting and financial reporting principles.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, the disclosed amount of contingent liabilities at the date of the financial statements, and the reported amounts of revenues, expenditures/expenses during the reporting period. Actual results could differ from those estimates.

#### A. REPORTING ENTITY

For financial reporting purposes, the State of Colorado's primary government includes all funds and account groups of the state, its departments, agencies, and state funded institutions of higher education that make up the state's legal entity. The state's reporting entity also includes those component units, which are legally separate entities, for which the state's elected officials are financially accountable.

Financial accountability is defined in GASB Statement No. 14, "The Financial Reporting Entity." The state is financially accountable for those entities for which the state appoints a voting majority of the governing board, and either is able to impose its will upon the entity or there exists a financial benefit or burden relationship with the state. For those entities that the state does not appoint a voting majority of the governing board, GASB Statement No. 14 includes them in the reporting entity if they are fiscally dependent. Entities that do not meet the criteria for inclusion may still be included if it would be misleading to exclude them.

Discretely presented in the combined financial statements for the state are the following entities:

- Denver Metropolitan Major League Baseball Stadium District
- University of Colorado Hospital Authority
- Colorado Water Resources and Power Development Authority
- Colorado Travel and Tourism Authority
- Colorado Uninsurable Health Insurance Plan

With the exception of the University of Colorado Hospital Authority, the majority of each governing board for these entities is appointed by the Governor and confirmed by the

Senate. The Board of Regents of the University of Colorado appoints the board of the University of Colorado Hospital Authority.

The University of Colorado Hospital Authority, the Colorado Uninsurable Health Insurance Plan, and the Colorado Travel and Tourism Authority are included because they present a financial burden on the state. The Baseball Stadium District is included because its board serves at the pleasure of the Governor, and therefore, the state is able to impose its will upon the entity. The Water Resources and Power Development Authority is also included because the state is able to impose its will upon the authority. Detailed financial information may be obtained directly from these organizations.

The following related organizations, for which the state appoints a voting majority of their governing boards, are not part of the reporting entity based on the criteria of GASB Statement No. 14:

- Colorado Compensation Insurance Authority (D.B.A. Pinnacol Assurance)
- Colorado Educational and Cultural Facilities Authority
- Colorado Student Obligation Bond Authority
- Colorado Health Facilities Authority
- Colorado Agricultural Development Authority
- Colorado Housing and Finance Authority
- Colorado Sheep and Wool Authority
- Colorado Beef Council Authority
- Fire and Police Benefit Association
- The State Board of the Great Outdoors Colorado Trust Fund

Even though the appointment of governing boards of these authorities is similar to those included in the reporting entity, the state does not impose its will, nor does it have a financial benefit or burden relationship with these entities. Detailed financial information may be obtained directly from these organizations.

Various college and university foundations exist for the benefit of the related state higher education institution. These entities are included in the various note disclosures if they qualify as related parties.

The state has entered a joint operating agreement with the Huerfano County Hospital District to provide patient care at the Colorado State Veterans Nursing Home at Walsenburg. The facility is owned by the state but is operated by the hospital district under a twenty year contract that is renewable at the district's option for successive ten year terms up to 99 years from the original commencement date in November 1993.

The state's contract with the district states that the district is responsible for funding the operating deficits of the nursing home; however, since the state owns the nursing home, it retains ultimate financial responsibility for the home. Only the state's share of assets, liabilities, revenues and expenses associated with the joint operation are shown in these financial statements. These include the land, building, and some of the equipment for the nursing home as well as revenues and expenses associated with the state's on-site contract administrator. The state's pass-through of U.S. Veterans Administration's funds to the district is also shown as revenue and expense of the state.

## B. FUND STRUCTURE

### Primary Government

The financial activities of the state are organized on the basis of individual funds and account groups. Each fund is a separate accounting entity, in which the operations are recorded in discrete sets of self-balancing accounts that comprise the assets, liabilities, fund equity, revenues and expenditures, or expenses, of that entity. For financial statement presentation, similar funds have been combined into fund types and categories.

### GOVERNMENTAL FUNDS

#### General Fund

Transactions related to resources obtained and used for those services traditionally provided by state government, which are not accounted for in other funds, are accounted for in the General Fund. Resources obtained from federal grants that support general governmental activities are accounted for in the General Fund consistent with applicable legal requirements.

#### Special Revenue Funds

Transactions related to resources obtained from specific sources, and restricted to specific purposes are accounted for in the special revenue funds. The individual funds include the Highway Fund, the Wildlife Fund, the Labor Fund, the Gaming Fund, and the Water Projects Construction Fund.

#### Debt Service Fund

This fund accounts for the accumulation of resources, principally transfers from other funds, for the payment of long-term debt principal and interest. The primary debt serviced by this fund consists of certain long-term lease purchase agreements.

#### Capital Projects Fund

Transactions related to resources obtained and used for acquisition, construction, or improvement of state owned facilities are accounted for in the capital projects fund.

### PROPRIETARY FUNDS

#### Enterprise Funds

These funds account for operations that are financed and operated in a manner much like private business enterprises. Costs of providing goods and services to the public, including depreciation, are recovered primarily through user charges.

#### Internal Service Funds

These funds account for the operations that provide goods or services on a cost-reimbursement basis to state agencies.

### FIDUCIARY FUND TYPES

#### Trust and Agency Funds

These funds account for assets held by the state in a trustee capacity or as an agent for other organizations or individuals. They include agency funds, expendable and nonexpendable trust funds, investment trust funds, and pension trust funds.

Agency funds are used to account for assets held for other funds, governments, or individuals. They are custodial in nature and do not involve the measurement of operations.

The expendable trust fund classification is used when both the principal and revenue earned may be expended for purposes designated by the trust agreement.

Nonexpendable trust funds require that the principal of the fund remains intact while only the earnings of the fund are expendable.

Individual investment trust funds are used to account for investments that are not in the treasurer's investment pool but are managed by the state treasurer for external entities.

Pension trust fund is used to account for the assets and liabilities arising from the contributions and benefits payable to participants in one of the state's pension plans. Participation in this plan is limited to select employees primarily legislators. Most state employees are covered by another plan operated by the Public Employees Retirement Association. (See Note V).

### ACCOUNT GROUPS

#### General Fixed Assets Account Group

Land, buildings, equipment and other capital assets, of the governmental fund types are accounted for in this group. Capital assets of the proprietary, trust, and the college and university funds are recorded in their respective funds and may be depreciated there. Infrastructure is not recorded in the state's accounting system or financial statements.

#### General Long-term Debt Account Group

This group accounts for long-term liabilities of the governmental type funds, such as general liability, lease purchase

obligations, employee leave obligations, and employee workers' compensation claims. It also accounts for short-term risk management liabilities for which expendable financial resources are not available. Long-term obligations of the proprietary funds, trust funds, and the college and universities are accounted for in their respective funds.

#### COLLEGE AND UNIVERSITY FUNDS

These funds account for the operations of the state-supported system of higher education. The College and University Funds consist of the following funds:

Current Funds Unrestricted account for economic resources which are expendable for any purpose in accomplishing the institutions' primary objectives.

Current Funds Restricted account for resources received from donors or other outside agencies, primarily the federal government, that are restricted for specific purposes.

Loan Funds account for resources available for student loans.

Endowment Funds account for resources contributed by donors. While the principal portion of the contribution must remain intact, earnings may be added to the principal or expended for restricted or unrestricted purposes.

Plant Funds account for resources available, acquisition costs, debt service requirements, and liabilities related to acquiring or repairing institutional properties.

Agency Funds account for resources held by the institution, acting in the capacity as agent, for distribution to designated beneficiaries.

#### Component Units

The Denver Metropolitan Major League Baseball Stadium District uses proprietary fund accounting in preparation of its financial statements. The Colorado Uninsurable Health Insurance Plan uses practices prescribed or permitted by the state's Division of Insurance. However, the Plan has recast its statements to conform to generally accepted accounting principles. The financial information for both entities is presented as of December 31, 1998.

The Colorado Water Resources and Power Development Authority uses proprietary fund accounting except for its expendable trust fund, which uses governmental fund accounting, and its agency fund, which records assets and liabilities on the modified accrual basis. The Authority's financial information is presented as of December 31, 1998.

The University of Colorado Hospital Authority and the Colorado Travel and Tourism Authority use proprietary fund accounting for their operations. The Hospital Authority reports its defined benefit retirement plan as a pension trust fund in accordance with Governmental Accounting

Standards Board Statements No. 25 and No. 27. Financial information for the Hospital Authority is presented as of June 30, 1999. Financial information for the Travel and Tourism Authority is presented as of December 31, 1998.

#### C. BASIS OF ACCOUNTING

##### Primary Government

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. Nonexpendable trust funds and proprietary funds are accounted for on a flow of economic resources measurement focus.

Governmental fund types, expendable trust funds, and agency funds are reported on the modified accrual basis. This basis of accounting recognizes revenues when they are measurable and available to finance current operations or to liquidate liabilities existing at fiscal year-end.

Historical data, adjusted for economic trends, is used in the estimation of the following accruals:

- Sales, use, liquor, and cigarette taxes are accrued based on filings received and an estimate of filings due by June 30.
- Net income taxes from individuals, corporations, and trusts are accrued based on current income earned by the taxpayer before June 30. Quarterly filings, withholding statements, and other historical data are used to estimate the taxpayer's current income. The revenue is accrued net of an allowance for uncollectable taxes.

Revenues earned under the terms of agreements with other governments or private sources are recorded at the time that the related expenditures are made.

Expenditures are recognized during the period in which the fund liability is incurred, except for accumulated employee leave time, principal and interest on long-term debt, which is recorded when due, risk management liabilities in excess of the available current financial resources appropriated for that purpose, and inventories which are generally considered expenditures when consumed.

Special reporting treatment at year-end is accorded to encumbrances. In the General Fund, a reserve for encumbrances is recorded at year-end for the appropriation that will be rolled-forward to cover encumbrances. In the Capital Projects Fund and the Highway Fund, a reserve for encumbrances is established for the contracted legal obligations of the funds.

Proprietary fund types, and nonexpendable, investment and pension trust funds are reported on the full accrual basis. Using this basis, revenues are recognized when earned, and expenses, including depreciation, are recognized when incurred.

College and university funds are reported on the accrual basis, except for depreciation related to plant fund assets which is generally not recorded, and revenues and expenditures related to summer school programs which are recorded primarily in the subsequent fiscal year in accordance with the National Association of College and University Business Officer's College and University Business Administration.

The state has determined that proprietary and non-expendable trust funds will apply all applicable GASB pronouncements, regardless of issue date, as well as the following pronouncements issued on or before November 10, 1989: FASB Statements and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with, or contradict, GASB pronouncements.

#### Component Units

The University of Colorado Hospital Authority has elected to adopt the provisions of the American Institute of Certified Public Accountants' Audit and Accounting Guide for Health Care Organizations, which are required for financial statements for periods beginning on or after June 15, 1996. Under these provisions, the hospital has qualified as a governmental entity. In applying governmental GAAP, the hospital has elected to apply the provisions of all relevant pronouncements of FASB, including those issued after November 30, 1989 that do not conflict with or contradict GASB pronouncements.

#### D. ELIMINATIONS

Substantially all intrafund transactions and balances of the primary government have been eliminated. Substantially all interfund transactions are classified as operating transfers-in or operating transfers-out after the revenues and expenditures/expenses are reported on each of the operating statements.

#### E. INSURANCE

The state has agreements with the Colorado Compensation Insurance Authority (CCIA), a related party, to administer a Paid Loss/Retro Plan for workers' compensation insurance claims through June 30, 1996. For claims arising after that date, the state is self-insured for workers' compensation. The state reimburses CCIA

for the current cost of claims paid and related administrative expenses. Actuarially determined liabilities are accrued for claims to be paid in future years.

The state insures its property through private carriers and is self-insured for general liability for both its officials and employees.

#### F. TOTAL COLUMN ON COMBINED STATEMENTS

The total columns on the combined statements for the primary government are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Nor are they comparable to a consolidation, as interfund eliminations have not been made in the aggregation of this data.

#### G. CASH AND POOLED CASH

##### Primary Government

For purposes of reporting cash flows, cash and pooled cash is defined as cash-on-hand, demand deposits, certificates of deposit with financial institutions, and pooled cash with the state treasurer.

##### Component Units

The University of Colorado Hospital Authority and the Colorado Uninsurable Health Insurance Plan consider highly liquid investments with an initial maturity of three months or less to be cash equivalents.

The Denver Metropolitan Major League Baseball Stadium District, and the Colorado Water Resources and Power Development Authority consider investments with a maturity of three months or less when purchased to be cash equivalents.

The Colorado Travel and Tourism Authority considers highly liquid debt instruments with maturities generally of three months or less to be cash equivalents.

#### H. INVENTORY

Inventories of the various state agencies primarily comprise finished goods inventories held for resale by Correctional Industries, and consumable items such as office and institutional supplies, fuel, and maintenance items.

Inventories of the governmental funds are stated at cost, while inventories of the proprietary funds are stated at the lower of cost or market. The state uses various valuation methods (FIFO, average, etc.) depending upon the state agency. The method used in each agency is consistent from year to year.

Consumable inventories that are deemed material are expended at the time they are consumed. Immaterial consumable inventories are expended at the time of purchase, while inventories held for resale are expensed at the time of sale.

## **I. INVESTMENTS**

For the primary government, items classified as investments, including those held by the state treasurer and represented as pooled cash, are both short and long-term investments. These are stated at fair value except for certain money market investments (See Note III-G). Investments that do not have an established market are reported at their estimated fair value.

The state treasurer records interest based on book yield as adjusted for amortization of premiums and discounts.

## **J. PROPERTY, PLANT, AND EQUIPMENT**

### **Primary Government**

Capital assets are carried at cost on the balance sheet. Donated capital assets are carried at their fair market value at the date of donation. The state capitalizes assets whose cost exceeds \$5,000.

Generally, the state does not capitalize interest during the construction of general fixed assets. General fixed assets are not depreciated. Assets in proprietary and nonexpendable trust are depreciated using the straight-line method.

The following useful lives are used for depreciation:

Buildings	25-40 years
Improvements other than buildings	10-17 years
Furniture, machinery, and equipment	5-12 years

### **Component Units**

The Denver Metropolitan Major League Baseball Stadium District and the University of Colorado Hospital Authority capitalize interest during the construction of fixed assets.

## **K. DEFERRED REVENUE**

With the exception of higher education funds, revenues received from the federal government and other program sponsors are deferred until the related expenditures are made. In addition, it is the policy of the state's higher education institutions to defer summer school tuition to the following fiscal year.

## **L. ACCRUED COMPENSATED ABSENCES LIABILITY**

### **Primary Government**

State law concerning the accrual of sick leave was changed effective July 1, 1988. After that date all employees in classified permanent positions within the State Personnel System accrue sick leave at the rate of 6.66 hours per month. Total sick leave per employee is limited to their respective accrued balance on July 1, 1988 plus 360 additional hours. After earning the maximum accrual each employee may convert five hours of sick leave to one hour of annual leave. Employees are paid for one-fourth of their unused sick leave upon death or retirement.

Annual leave is earned at increasing rates based on employment service longevity. In no event can a classified employee accumulate more than 42 days of annual leave at the end of a fiscal year. Employees are paid 100% of their annual leave balance upon leaving state service.

Compensated absence liabilities related to the governmental funds are recorded in the General Long-Term Debt Account Group. For all other fund types, both current and long-term portions are recorded as individual fund liabilities.

### **Component Units**

Employees of the University of Colorado Hospital Authority use paid time off (PTO) for vacation, holidays, short-term illness, and personal absences. Extended illness pay (EIP) is used to continue salary during extended absences due to medical disability or serious health conditions. Both PTO and EIP earnings are based on length of service. The hospital records PTO expense as earned. Accrued EIP is based solely on amounts estimated to become payable to that portion of the employee base which will ultimately retire from the Hospital.

The Colorado Water Resources and Power Development Authority recognizes unused vacation benefits as they are earned.

## M. FUND EQUITY

Reserved fund balance indicates that a portion of fund equity is not available for expenditure, or is legally segregated for a specific use. Designated fund balances are not legally segregated but indicate tentative management plans for future use of funds.

The fund balance of the General Fund is reserved as provided by statute or as provided by generally accepted accounting principles. The unreserved portion of fund equity on the budgetary basis is available for appropriation or working capital. Since the state is prohibited by its Constitution from incurring general obligation debt, the General Fund surplus on the budgetary basis must be positive at year-end.

Reserves of fund equity at June 30, include:

Reserved for Encumbrances - In the General Fund, this reserve is for the portion of the Fiscal Year 1998-99 appropriation that was encumbered for goods and services that were not received before June 30, 1999 due to extenuating circumstances. Thus, the specific appropriation related to these items is rolled-forward to Fiscal Year 1999-00.

In the Special Revenue and Capital Projects Funds this reserve represents purchase orders, contracts and long-term contracts related to construction of major capital projects. Since the resources of these funds are often received after the long-term contracts are executed and recorded as encumbrances, the unreserved undesignated amount may reflect a deficit. This deficit will be funded by future proceeds of the fund.

Reserved for Other Specific Purposes - These reserves are used to indicate that a portion of fund balance is restricted as to its use. The restriction of the representative assets may have been placed there by their donor in the case of fiduciary funds, by statute in the General and other governmental type funds, or reserved for special purposes such as the payment of debt principal in the case of the Debt Service Fund.

In the college and university funds, all fund balances with the exception of the Current Unrestricted Fund are reserved to indicate the restrictions of available assets to specific purposes of these funds.

Reserved for Long-Term Assets and Long-Term Receivables - These reserves in the governmental funds are used to reserve the portion of fund balance that relates to long-term interfund receivables and other long-term assets. These assets are not currently available for appropriation.

Reserved for Statutorily Specified Amounts - Colorado Revised Statutes 24-75-201.1(d)(III) requires that four percent of the amount appropriated for expenditure from the General Fund be reserved for that fiscal year. In Fiscal Year 1998-99, this amount should be \$188.12 million. Under generally accepted accounting principles only \$4.85 million was available to meet this reserve requirement. However, due to delayed recognition of excess revenue refunds under the state's budgetary basis, the reserve requirement was met and legal compliance was achieved. (See Note II-A)

Article X, Section 20 (TABOR) of the State Constitution requires the reservation of three percent or more of the 1998-99 fiscal year spending for emergencies. Fiscal year spending is defined in TABOR as all spending and reserve increases except for spending from certain excluded revenues. (See Note II-D)

Designated Unreserved - In the Capital Projects Fund, this designation represents amounts appropriated but not encumbered by contracts. In the Fiduciary Funds, this designation represents the cumulative net earnings of the Controlled Maintenance Trust Fund. In the College and University Funds, this designation represents the fund balance of the higher education auxiliary activities in the Current Unrestricted Fund.

## N. OUTSTANDING ENCUMBRANCES

The state uses encumbrance accounting as an extension of formal budgetary integration in all funds except the College and University Funds. Under this procedure, purchase orders and contracts for expenditures of money are recorded to reserve an equivalent amount of the related appropriation.

Encumbrances do not constitute expenditures or liabilities. They lapse at year-end unless specifically brought forward to the subsequent year, committing the subsequent year's available appropriation.

**NOTE II. BUDGETS - LEGAL COMPLIANCE****A. BUDGETARY BASIS**

The budgetary fund types used by the state differ from the generally accepted accounting fund types. The budgetary fund types are general, cash, and federal funds. For budgetary purposes, cash funds are all funds received by the state that have been designated to support specific expenditures. Federal funds are revenues received from the Federal government. General-purpose revenues are not designated for specific expenditures.

Eliminations of transfers and intrafund transactions are not made in the budgetary funds if those transactions are under budgetary control. Thus, revenues and expenditures in these funds are shown at their gross amounts. This results in several instances of duplicate recording of revenues and expenditures. An expenditure of one budgetary fund may be shown as a transfer-in or revenue in another budgetary fund and then be shown again as an expenditure in the second fund.

For budget purposes, depending on the accounting fund type involved, expenditures/expenses are determined using the modified accrual or accrual basis of accounting with the following exceptions. Unrealized gains and losses on investments are not recognized as changes in revenue. Refunds under Article X, Section 20 (TABOR) of the State Constitution are reductions of revenue for accounting purposes, but they are shown as expenditures for budgetary purposes. These expenditures are recognized in the year that the refunds are paid, not in the year the refund liability arises.

**B. BUDGETARY PROCESS**

The financial operations of the legislative, judicial, and executive branches of state government, with the exception of custodial funds or federal moneys not requiring matching state funds, are controlled by annual appropriation made by the General Assembly. The Department of Transportation's portion of the Highway Fund is appropriated to the State Transportation Commission. Within the legislative appropriation, the Commission may appropriate the specific projects and other operations of the Department. In addition, the Commission may appropriate available fund balance from their portion of the Highway Fund.

The legislative appropriation is constitutionally limited to the unrestricted funds held at the beginning of the year plus revenues estimated to be received during the year as determined by the budgetary basis of accounting. The original appropriation by the General Assembly in the

Long Appropriations Bill segregates the budget of the state into its operating and capital components. The majority of the capital budgets are accounted for in the Capital Projects Fund, with the primary exception being budgeted capital funds used for infrastructure.

The Governor has line item veto authority over the Long Appropriations Bill, but the General Assembly may override each individual line item veto by a two-thirds majority vote in each house.

General and cash funded appropriations, with the exception of capital projects, lapse at year-end unless executive action is taken to roll-forward all or part of the remaining unspent budget authority. General funded appropriations that meet the strict criteria for roll-forward are reserved in the General Fund at year-end. Since capital projects appropriations are generally available for three years after appropriation, significant amounts of the capital budgets remain unexpended at fiscal year-end.

The appropriation controls the combined expenditures and encumbrances of the state, in the majority of the cases, to the level of line item within the agency. Line items are individual lines in the official budget document and vary from specific payments for specific programs to single appropriations at the agency level. The institutions of higher education are appropriated at the governing board level. Statutes allow the Judicial and Executive Branches, at year-end, to transfer legislative appropriations within departments for expenditures of like purpose. The appropriation may be adjusted in the following session of the General Assembly by a supplemental appropriation.

On the *Combined Statement of Revenues, Expenditures/Expenses, and Changes in Fund Balances/Equity - Budgetary Basis - Budget and Actual*, the column titled Original Appropriation consists of the Long Appropriations Act including anticipated federal funds, special bills, and any statutorily authorized appropriations. The column titled Final Spending Authority includes the original appropriation, federal funds actually awarded, supplemental appropriations of the legislature, and other miscellaneous budgetary items.

**C. OVEREXPENDITURES**

Depending on the accounting fund type involved, expenditures/expenses are determined using the modified accrual or accrual basis of accounting even if the accrual will result in an overexpenditure. If earned cash

revenues plus available fund balance, and earned federal revenues, are less than cash and federal expenditures, then an overexpenditure occurs even if the expenditures did not exceed the total legislative line item appropriation.

The state controller may allow certain overexpenditures of the legal appropriation with the approval of the Governor. If the controller restricts the subsequent year appropriation for the overexpenditure, the agency is required to seek a supplemental appropriation from the General Assembly or reduce their subsequent year's expenditures.

Overexpenditures at June 30, 1999, for which the controller has restricted a future appropriation are:

- The Medical Services Program of Medicaid in the Department of Health Care Policy and Financing overexpended its appropriation of general funds by \$11,880,399 and its appropriation of cash funds by \$806,927.
- The Metropolitan State College of Denver overexpended its appropriation of cash funds by \$427,867 when its expenditures exceeded its revenues and available fund balance. The excess expenditures were for the purchase of computer and networking equipment to address the year 2000 computer problem.
- The Division of Administrative Hearings in the Department of Personnel overexpended its appropriation of cash funds by \$19,998 when expenditures exceeded revenue earned and the available fund balance. The division experienced unusually large retirement payments for sick and annual leave during Fiscal Year 1998-99.
- The Human Resource Services section of the Department of Personnel overexpended its appropriation of cash funds by \$21,004. The overexpenditure occurred when start-up costs associated with the new Defined Contribution Plan exceeded revenues generated under contract with plan vendors.
- The Department of Human Services manages the Aid to Needy Disabled – State Only Grant Program. The department incurred expenditures greater than its general fund appropriation for this program by \$981,444 due to an increase in caseload. However, an allowed appropriation transfer of \$481,444 resulted in a net overexpenditure of \$500,000.

As provided by Colorado Revised Statutes 24-75-109, the

state controller has the authority to allow unlimited over-expenditures in the Medicaid program. The Department of Human Services is allowed \$1 million of over-expenditures not related to Medicaid and unlimited overexpenditures for self-insurance of its workers' compensation plan. Statute also allows overexpenditures up to \$1 million in total for the remainder of the executive branch. An additional \$1 million of transfers and overexpenditure are allowed for the Judicial Branch.

A separately issued report comparing line item expenditures to authorized budget is available upon request from the State Controller's Office.

#### D. TAX, SPENDING, AND DEBT LIMITATIONS

Certain state revenues, primarily taxes and fees, are limited under Article X, Section 20 (TABOR) of the State Constitution. The growth in these revenues from year to year is limited to the rate of population growth plus the rate of inflation. The constitution also requires voter approval for any new tax, tax rate increase, or new debt. These limitations apply to the state as a whole, not to individual funds, departments or agencies of the state. Annual revenues that exceed the constitutional limitation must be refunded, unless voters approve otherwise.

The state exceeded the revenue growth limitation in Fiscal Year 1996-97, 1997-98, and 1998-99. A liability was accrued in the General Fund as a reduction of tax revenues for the current year amount exceeding the limitation (\$679.63 million). The Fiscal Year 1998-99 refund and outstanding unpaid refunds from prior years are shown on the *Combined Balance Sheet - All Fund Types and Discretely Presented Component Units* as TABOR Refund Liability.

Colorado Revised Statutes 24-75-201 requires that the accrual of the TABOR Refund not be included in the General Fund budgetary fund balance (General Fund Surplus) in the year in which the excess revenues were accrued. Instead, the budgetary fund balance is reduced in the following year by reporting an expenditure equal to the excess revenue reduced by any amount the voters authorize the state to retain. Therefore, the *Combined Statement of Revenues, Expenditures/Expenses, and Changes in Fund Balances/Equity, Budget and Actual - All Budgeted Funds* shows \$563.2 million expenditure related to the Fiscal Year 1997-98 TABOR refund.

A separately issued audited report of TABOR computations for Fiscal Year 1998-99 will be available from the State Controller's Office in early 2000.



**E. BUDGET TO GAAP RECONCILIATION**

The *Combined Statement of Revenues, Expenditures/Expenses, and Changes in Fund Balances/Equity, Budget and Actual - All Budgeted Funds* compares those revenues and expenditures that are legislatively appropriated or otherwise legally authorized. College and university funds, with the exception of the state-appropriated amounts are excluded from this statement.

Certain expenditures on a generally accepted accounting principle (GAAP) basis such as bad debt expense and

depreciation, are not budgeted by the General Assembly. These expenditures are shown as "GAAP Expenditures Not Budgeted" on the *Combined Statement of Revenues, Expenditures/Expenses, and Changes in Fund Balances/Equity, Budget and Actual - All Budgeted Funds*.

Some transactions considered expenditures for budgetary purposes, such as capital purchases in proprietary fund types, are not expenditures on a GAAP basis.

**(DOLLARS IN THOUSANDS)**

	GOVERNMENTAL FUND TYPES			
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
<b>BUDGETARY BASIS:</b>				
Revenues and Transfers-In:				
General	\$ 5,623,379	\$ -	\$ -	\$ 524,613
Cash	2,529,538	1,845,466	16,663	57,825
Federal	2,115,898	348,558	-	10,161
Sub-Total Revenues and Transfers-In	10,268,815	2,194,024	16,663	592,599
Expenditures/Expenses and Transfers-Out				
General Funded	5,844,014	-	-	359,662
Cash Funded	2,544,515	1,780,860	16,427	44,546
Federally Funded	2,121,403	347,728	-	10,158
Expenditures/Expenses and Transfers-Out	10,509,932	2,128,588	16,427	414,366
Excess of Revenues and Transfers-In Over (Under) Expenditures and Transfers-Out - Budget Basis	(241,117)	65,436	236	178,233
(Increase)/Decrease in TABOR Refund	(116,471)	-	-	-
Increase/(Decrease) in Unrealized Gains/Losses	(108,376)	(10,492)	-	(12,032)
Increase for Budgeted Non-GAAP Expenditures	668	14,257	-	-
Increase/(Decrease) for GAAP Expenditures Not Budgeted	105,665	-	-	8,184
Increase/(Decrease) for GAAP Revenue Adjustments	(9,739)	-	-	(15)
Increase/(Decrease) for Non-Budgeted Funds	-	-	-	-
Excess of Revenues and Transfers-In Over (Under) Expenditures and Transfers-Out - GAAP Basis	(369,370)	69,201	236	174,370
FUND BALANCE, JULY 1 - GAAP BASIS	718,011	803,916	4,475	398,186
Prior Period Adjustments	(2,900)	-	-	-
FUND BALANCE, JUNE 30 - GAAP BASIS	\$ 345,741	\$ 873,117	\$ 4,711	\$ 572,556

These expenditures are shown as "Budgeted Non-GAAP Expenditures." Some transactions considered revenues for budgetary purposes, such as intrafund sales, are not considered GAAP revenues. Some events, such as the recognition of unrealized gains/losses on investments and the current year TABOR liability affect revenues on a GAAP basis but not on the budgetary basis. These events and transactions are shown as "GAAP Revenue Adjustments." The inclusion of these revenues and

expenditures in the *Combined Statement of Revenues, Expenditures/Expenses, and Changes in Fund Balances/-Equity, Budget and Actual - All Budgeted Funds* is necessary to reconcile fund balance.

A reconciliation of the *Combined Statement of Revenues, Expenditures/Expenses, and Changes in Fund Balances/-Equity, Budget and Actual - All Budgeted Funds* to the fund balances of the GAAP fund types follows:

PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES	ACCOUNT GROUPS			TOTAL PRIMARY GOVERNMENT
ENTERPRISE	INTERNAL SERVICE	TRUST & AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	COLLEGE AND UNIVERSITY FUNDS	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,147,992
474,611	191,682	448,331	-	-	1,257,530	6,821,646
67,791	-	12,572	-	-	-	2,554,980
542,402	191,682	460,903	-	-	1,257,530	15,524,618
-	-	-	-	-	-	6,203,676
442,496	192,103	309,627	-	-	1,246,832	6,577,406
63,653	-	11,954	-	-	-	2,554,896
506,149	192,103	321,581	-	-	1,246,832	15,335,978
36,253	(421)	139,322	-	-	10,698	188,640
-	-	-	-	-	-	(116,471)
(733)	(259)	(18,963)	-	-	(2,011)	(152,866)
2,983	200	13	-	-	-	18,121
(27,269)	(2,098)	(12)	-	-	-	84,470
-	-	-	-	-	-	(9,754)
-	-	(127,447)	155,060	-	253,046	280,659
11,234	(2,578)	(7,087)	155,060	-	261,733	292,799
86,043	23,315	2,122,893	1,575,763	-	2,879,871	8,612,473
-	-	288,007	-	-	-	285,107
\$ 97,277	\$ 20,737	\$ 2,403,813	\$ 1,730,823	\$ -	\$ 3,141,604	\$ 9,190,379

**NOTE III. OTHER ACCOUNTING DISCLOSURES****A. CASH AND POOLED CASH****Primary Government**

The State Treasury acts as a bank for all state agencies, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. Interest earnings on these investments are credited to the General Fund, unless a specific statute directs otherwise. Where a fund category has a deficit cash position, that deficit has been reclassified to an interfund payable to the General Fund. The detailed composition of the cash and investments is shown in the annual Treasurer's Report.

State agencies are authorized by various statutes to deposit funds in accounts outside the custody of the State Treasury. Legally authorized deposits include demand deposits and certificates of deposit. The state's cash management policy is to invest all major revenues as soon as the moneys are available within the banking system. Electronic transfers are used by the state to enhance availability of funds for investment purposes.

Colorado statutes require protection of public moneys in banks beyond that provided by the federal insurance corporations. The Public Deposit Protection Act in Colorado Revised Statutes 11-10.5-107(5) requires all eligible depositories holding public deposits to pledge designated eligible collateral having market value equal to at least 102% of the deposits exceeding those amounts insured by federal insurance.

The state maintains accounts and certificates of deposits for various purposes at locations throughout the state. Cash balances not required for immediate use are deposited either through the investment pool administered by the state treasurer or by the fund custodians.

The state categorizes its cash into three categories as to their risk:

- Category 1 is federally insured deposits, or deposits fully collateralized with securities held by the state or its agent in the state's name.
- Category 2 is deposits uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the state's name.
- Category 3 is uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its

trust department or agent, but not in the state's name.

At June 30, 1999, the state had cash balances in all funds with a carrying value of \$899.5 million. The bank balances of these funds are categorized by risk as follows:

Risk Category	Bank Balance June 30
1	\$ 750,650,596
2	175,513,081
3	228,642
<b>TOTAL</b>	<b>\$ 926,392,319</b>

The Cash and Pooled Cash line on the financial statements includes \$3,035.6 million of claims of the state's funds in the treasurer's pooled cash. At June 30, 1999, the treasurer had invested \$2,973.5 million of the pool with the balance in demand deposits and certificates of deposit.

**Component Units**

At December 31, 1998, the Colorado Water Resources and Power Development Authority had federally insured cash deposits with a bank balance of \$193,541 and deposits collateralized in single institution pools of \$12,169.

At December 31, 1998 the Denver Metropolitan Major League Baseball Stadium District had federally insured cash deposits with a bank balance of \$33,405. They also had \$12,946,887 in money market funds invested in obligations of the U.S. Government or its agencies.

At December 31, 1998, the Colorado Travel and Tourism Authority had federally insured cash deposits with a bank balance of \$100,000 and uncollateralized and uninsured deposits of \$129,628.

**B. NONCASH TRANSACTIONS IN THE PROPRIETARY FUND TYPES**

In the proprietary fund types, noncash transactions occur that do not affect the *Combined Statement of Cash Flows, All Proprietary Fund Types and Similar Trust Funds and Discretely Presented Component Units*. These transactions are summarized at the bottom of the statement and are explained as follows:

- Correctional Industries, an enterprise activity, recorded \$1,062,021 of revenues and expense related to receipt and distribution of federal surplus property. Correctional Industries exchanged no cash in the underlying transactions.
- The State Fair Authority, an enterprise fund, received \$1,874,038 of fixed assets from the General Fixed Assets Account Group.
- The State Nursing Homes, an enterprise activity, received \$39,923 of fixed assets contributed by the Capital Projects Fund, \$7,378 from donated fixed assets, and assumed \$24,878 of lease obligations for the purchase of fixed assets. They also lost \$1,310 on the disposal of fixed assets.
- Guaranteed Student Loan (GSL), an enterprise activity, assumed \$1,345,367 in lease and note obligations for the purchase of equipment. GSL also recorded a \$28,631 loss on disposal of equipment.
- Central Services, an internal service activity, increased their capital lease obligations by \$13,778,939 to acquire additional vehicles for their fleet program.
- The Public Safety Fund, an internal service fund, received \$499,900 from the General Fixed Assets Account Group related to the purchase of an aircraft that was funded by the Capital Projects Fund.
- Nearly all proprietary funds incurred unrealized gains/losses on investments or on the Treasurer's pooled cash. The unrealized loss on the Treasurer's pool changed cash balances, but the gain/loss on investments individually held did not result in changes in cash balances. Note III-G shows the combined effect of these two sources of unrealized loss.

## C. RECEIVABLES

### Primary Government

The tax receivable of \$889.7 million results from the recording of self-assessed taxes on the modified accrual basis. The other receivables of \$298.2 million are net of a deduction of \$80.1 million in allowance for doubtful accounts.

## Component Units

The Colorado Water Resources and Power Development Authority had loans receivable of \$355.7 million and \$279.0 million at December 31, 1998 and 1997, respectively. During 1998 they made new loans of \$87.8 million and canceled, or received repayments for existing loans of \$11.1 million.

The University of Colorado Hospital Authority has a significant concentration of patient accounts receivable with Medicare (25 percent), Medicaid (9 percent), and Blue Cross (7 percent). However, the authority's management does not believe that there are any credit risks associated with these payers. Further, the authority continually monitors and adjusts its reserves and allowances associated with these receivables. Net patient service revenue under the Medicare and Medicaid programs in Fiscal Year 1998-99 and 1997-98 were approximately \$97.6 million and \$99.1 million, respectively.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

## D. INVENTORY

Inventories of \$8.25 million in the General Fund at June 30, 1999, consisted of \$7.26 million of consumable inventories, and \$.98 million of food donated to the Department of Human Services.

## E. PREPAIDS, ADVANCES, AND DEFERRED CHARGES

In the General Fund, this account consists primarily of Medicaid payments in advance made to mental health and health care providers by the Department of Health Care Policy and Financing. Charges in the College and University Funds related to summer school are deferred to Fiscal Year 1999-00 to match the deferral of summer school tuition.

**F. INTERFUND BALANCES**

Individual interfund receivable and payable balances at June 30, 1999 are:

(Amounts in Thousands)

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 39,131	\$ 35,247
Special Revenue Funds		
Highway	6,682	941
Wildlife	1,668	9
Labor	412	-
Gaming	7,856	34,761
Water Projects	208	8,000
Capital Projects Funds	1,922	1,468
Enterprise Funds		
Guaranteed Student Loan	-	1
State Lottery	-	17,417
Prison Canteens	22	-
Correctional Industries	321	124
Other Enterprise Activities	4	1
Internal Service Funds		
Central Services	76	7
Telecommunications	3	1,069
Highways	5	-
Administrative Hearings	1	-
Expendable Trust Funds		
Unemployment Insurance	26	-
State Treasurer	13,861	-
Severance Tax Fund	10,002	-
Land Board	-	3,428
Conservation Trust Fund	7,000	-
Deferred Compensation Plan	103	103
Other Expendable Trusts	-	10
Pension Trust Funds	-	20
Nonexpendable Trust Funds		
State Lands	131	-
Controlled Maintenance	-	237
Other Nonexpendable Trusts	10	-
Agency Funds		
Revenue	6,273	4,003
Treasury	8,750	-
Other Agency Funds	245	22
College and University Funds		
Unrestricted	3,462	13,849
Restricted	4,955	3,513
Loan	1	-
Endowment	14	1,730
Unexpended Plant Fund	16,149	1,762
Retirement of Indebtedness	426	-
Investment in Plant	-	1,954
Agency	1	44
Totals	\$ 129,720	\$ 129,720

**G. INVESTMENTS****Primary Government**

The state holds investments both for its own benefit and as an agent for certain entities as provided by law. The state does not invest its funds with any external investment pool, rather, funds not required for immediate payments are administered by the authorized custodian of the funds or pooled and administered by the state treasurer (See Note III-H).

The state treasurer maintains an agency fund for the Great Outdoors Colorado Program (GOCO), a related party. At June 30, 1999 and 1998 the treasurer had \$48.9 million and \$62.0 million at fair value, respectively, of GOCO's funds on deposit and invested. The treasurer also maintains an individual investment trust fund for the Colorado Compensation Insurance Authority (CCIA), a related party. At June 30, 1999 and 1998, the treasurer had \$653.0 and \$779.1 million at fair value, respectively, of CCIA's funds on deposit and invested.

Colorado Revised Statutes 24-75-601.1 authorizes the type of investments that the state may hold. In general, the statute requires securities that are of the highest quality as determined by national rating agencies, those guaranteed by another state or the federal government, or a registered money market fund whose policies meet criteria set forth in the statute.

The state categorizes the custodial risks of its investments into the following categories:

- Category A is those investments that are insured or registered securities held by the state or its agent in the state's name.
- Category B is those investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the state's name.
- Category C is those investments that are uninsured and unregistered, with securities held by the counterparty or its agent, but not in the state's name.

Mutual funds and certain other investments are not categorized as to custodial risk because ownership is not evidenced by a security.

The following table lists the state's investments by type and risk category:

(Amounts in Thousands)

Type of Investment*	Risk Category			Total Fair Value
	A	B	C	
U.S. Government Securities	\$ 1,937,907	\$ 12,318	\$ 27,001	\$ 1,977,226
Bankers' Acceptance	41,310	-	-	41,310
Commercial Paper	487,368	-	-	487,368
Corporate Bonds	701,487	-	1,046	702,533
Corporate Securities	5,901	-	10,840	16,741
Repurchase Agreements	30,514	-	-	30,514
Asset Backed Securities	1,245,900	-	671	1,246,571
Other	213	139	-	352
Subtotal	<u>\$ 4,450,600</u>	<u>\$ 12,457</u>	<u>\$ 39,558</u>	4,502,615
Uncategorized				530,133
Total				<u>\$ 5,032,748</u>

\*Note: Amounts include the treasurer's pool and individual investment accounts.

The following schedule reconciles deposits and investments to the financial statements for the primary government:

(Amounts in Thousands)

Footnote Amounts	Carrying Amount
Deposits (Note III-A)	\$ 899,466
Investments	5,032,748
Total	<u>\$ 5,932,214</u>
Combined Balance Sheet Amounts	
Cash and Pooled Cash	\$ 3,845,404
Investments	1,759,494
Rights Under Deferred Compensation	327,316
Total	<u>\$ 5,932,214</u>

The fair value of the state's investments are determined from quoted market prices except for money market investments which are reported at amortized cost which approximates market.

Realized gains from the sale of investments related to the Treasurer's pooled cash were \$1,723,116 for Fiscal Year 1998-99. Excluding the Individual Investment Trust Fund, and the Deferred Compensation Plan, the state realized \$675,188 of net gains from the sale of investments of other funds during Fiscal Year 1998-99.

The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments in those prior periods.

The following schedule shows the state's net unrealized gains and (losses) by fund category for Fiscal Years 1998-99

and 1997-98. It excludes the Deferred Compensation Plan, an expendable trust fund, and agency funds because realized gains of these funds are not available to the state's programs.

(Amounts in Thousands)

Fund Type	Gain/(Loss)	
	Fiscal Year 1998-99	Fiscal Year 1997-98
Individual Investment Accounts	\$ (29,046)	\$ 22,774
General Fund	(11,513)	7,592
State Lands	(7,218)	5,245
Controlled Maintenance Trust	(6,282)	6,607
Labor	(5,743)	4,945
Capital Projects	(3,864)	1,533
Highways	(3,076)	1,890
Current Funds - Unrestricted	(2,061)	(1,888)
Water Conservation Construction	(854)	476
Wildlife	(795)	439
Renewal and Replacement	(596)	(1,049)
Colorado Gaming Fund	(517)	293
Colorado Student Loan Program	(389)	206
Unexpended Plant Funds	(347)	(2,392)
Retirement of Indebtedness	(263)	380
Severance Tax Trust Fund	(257)	199
State Employee Group Insurance	(248)	128
Colorado Lottery Fund	(234)	129
Other Expendable Trusts	(161)	48
Other Nonexpendable Trusts	(57)	55
Correctional Industries	(40)	22
Other Enterprise Funds	(36)	36
Loan Fund	(36)	(60)
Treasurer's Expendable Trust	(30)	18
State Nursing Homes	(23)	13
Conservation Trust Fund	(17)	6
Transportation	(10)	7
State Fair Authority	(7)	(5)
Business Enterprise Program	(3)	2
Debt Service	(1)	1
Current Funds - Restricted	229	1,045
Endowment Fund	238	3,790
Totals	<u>\$ (73,257)</u>	<u>\$ 52,485</u>

### Component Units

The state's component units have adopted Governmental Accounting Standards Board Statement No. 31 Accounting and Financial Reporting for Certain Investments and for External Investment Pools (GASB 31), which requires all debt and equity securities to be reported at fair value. The fair values are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

Colorado Water Resources and Power Development Authority's implementation of GASB 31 did not affect interperiod investment comparability since the change to fair value at December 31, 1997 was not material.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which governmental units may invest. The risk criteria are defined the same as for the primary government.

In Fiscal Year 1998-99, the University of Colorado Hospital Authority realized a net gain on investments of \$7.2 million and unrealized gain of \$6.0 million. The unrealized gain represented a \$1.3 million decline in the unrealized fair value of investments from the prior fiscal year.

The following table lists the component units' investments by type and risk category:

(Amounts in Thousands)

Type of Investment	Risk Category			Total Fair Value
	A	B	C	
U.S. Government Securities	\$ 79,619	\$ -	\$ 8,152	\$ 87,771
Repurchase Agreements	-	-	120,771	120,771
Corporate Bonds	54,050	-	-	54,050
Equity Securities	45,701	-	-	45,701
Subtotal	\$ 179,370	\$ -	\$ 128,923	308,293
Uncategorized				196,083
Total				\$ 504,376

### H. TREASURER'S INVESTMENT POOL

Participation in the treasurer's pool is mandatory for all state agencies with the exception of the University of Colorado. The treasurer determines the fair value of the pool's investments at each month-end for performance tracking purposes. Short-term realized gains and losses and interest earnings, adjusted for amortization of premium and discounts, are distributed monthly prorated to the average of the participant's daily balance during the month if the participant is authorized to receive interest and investment earnings by statute.

Colorado Revised Statutes 24-36-113 authorizes the state treasurer to enter collateralized securities lending agreements. During Fiscal Year 1998-99, the treasurer loaned U.S. government and federal agencies' securities held for the Colorado Compensation Insurance Authority to Morgan Stanley. The treasurer also loaned U.S. government and federal agencies securities held for the Colorado Treasury Pool, the Public School Permanent Fund, and the Controlled Maintenance Trust Fund to Deutsche Bank. Morgan Stanley and Deutsche Bank pay the treasurer an agreed upon fee for use of these securities. Collateral is deposited and held in a custodial bank.

Currently, collateral held by the custodial bank includes A-rated or better domestic corporate bonds, however, the agreement allows collateral to include government and federal agencies' securities as well. Corporate securities held as collateral must equal at least 105 percent of the market value of the loaned securities, while government securities must equal at least 102 percent of the market value. The treasurer does not have the authority to pledge or sell collateral securities without borrower default nor does the treasurer accept cash as collateral.

Morgan Stanley, acting as the principal, and Deutsche Bank, acting as agent and fiduciary, are directly responsible for the safeguarding of assets. Each carries a financial institution bond that is substantially more than the amount required by the New York Stock Exchange. On June 30, 1999, the market value of securities on loan from the Colorado Compensation Insurance Authority account was \$179,888,721. The market value of the collateral securities pledged was \$190,922,550. At June 30, 1999, the market value of the securities on loan from the other three funds was \$1,329,520,668, and the market value of the related pledged collateral was \$1,372,358,703.

## I. PROPERTY, PLANT, AND EQUIPMENT

### Primary Government

A summary of fixed assets by account groups and fund types follows:

(Amounts in Thousands)

	General Fixed Assets Account Group	Enterprise Funds	Internal Service Funds	Fiduciary Funds	College & University Funds	Totals
Land and Improvements	\$ 218,800	\$ 9,110	\$ -	\$ 7,549	\$ 183,203	\$ 418,662
Buildings and Improvements	1,038,352	26,797	847	42	1,679,178	2,745,216
Equipment	328,768	32,203	106,871	628	550,724	1,019,194
Library Books and Holdings	2,743	-	-	3,833	277,497	284,073
Construction in Progress	130,597	379	10,068	-	277,198	418,242
Other	11,563	58	16,978	-	901	29,500
Less: Accumulated Depreciation	-	(33,737)	(78,704)	(2)	(1,367)	(113,810)
Totals	\$ 1,730,823	\$ 34,810	\$ 56,060	\$ 12,050	\$ 2,967,334	\$ 4,801,077

A statement of changes in general fixed assets for the year ended June 30, 1999 is shown below:

(Amounts in Thousands)

	Beginning Balance July 1	Additions	Deductions	Net Change	Ending Balance June 30
Land and Improvements	\$ 202,591			\$ 16,209	\$ 218,800
Buildings and Improvements	852,534			185,818	1,038,352
Equipment	343,302			(14,534)	328,768
Library Books and Holdings	2,743			-	2,743
Construction in Progress	163,256			(32,659)	130,597
Other	11,337			226	11,563
Totals	\$ 1,575,763	\$ 220,937	\$ 65,877	\$ 155,060	\$ 1,730,823

### Component Units

At December 31, 1998, the Colorado Travel and Tourism Authority reported office equipment, net of accumulated depreciation, of \$5,901.

The Colorado Water Resources and Power Development Authority reported furniture and fixtures, net of accumulated depreciation, of \$102,453 at December 31, 1998.

The Denver Metropolitan Major League Baseball Stadium District reported land and improvements,

buildings, and other property and equipment, of \$184.2 million and \$188.9 million, net of accumulated depreciation, at December 31, 1998 and 1997 respectively.

At June 30, 1999, the University of Colorado Hospital Authority reported gross amounts for land, buildings and improvements of \$165.6 million, equipment of \$88.2 million, and construction in progress of \$11.6 million. Accumulated depreciation related to these fixed assets was \$94.3 million.



**J. OTHER LONG-TERM ASSETS**

In the governmental funds, the state has reserved the fund balance for long-term assets and long-term loans receivable. The loans in the Special Revenue Fund are made to local entities by the Water Conservation Board for the purpose of constructing water projects in the state. These loans are made for periods ranging from 10 to 40 years at interest rates of 2 to 4 percent. The loans require the local entities or districts to make a yearly payment of principal and interest.

**K. FUND BALANCE DEFICITS**

The fund deficit of \$281.9 million in undesignated fund equity of the Special Revenue Funds is the result of reserving fund balance for purchase orders and long-term contracts related to highway construction. This deficit will be funded from future proceeds of the Highway Fund.

The Administrative Hearings Fund, an internal service fund, had a retained earnings deficit of \$61,874 at June 30, 1999 and a deficit of \$106,822 at June 30, 1998.

The Defined Contribution Fund, a pension trust fund, had an unreserved undesignated net asset deficit of \$21,004 at June 30, 1999. The deficit resulted because administrative expenditures of establishing and managing the plan exceeded the revenues available for that purpose.

The State Fair Authority, an enterprise fund, had a retained earnings deficit of \$1,328,459 and \$777,614 respectively at June 30, 1999 and June 30, 1998.

**L. FUND EQUITY**

Fund equities reserved for other specific purposes at June 30, 1999 are:

(Amounts in Thousands)					
Reserved For	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Fiduciary Funds
Unemployment Benefits	\$	\$	\$	\$	\$ 743,925
CCIA Individual Investment Trust Fund					662,105
Deferred Compensation Plan					327,567
Public School Permanent Moneys					299,985
Benefits for Injured Workers		150,062			
Water Conservation Construction		93,587			
Wildlife, Parks and Outdoor Recreation	1,088	70,866			874
Severance Tax	31,756				40,745
Family Issues Cash Fund	39,404				
Colorado Gaming Fund		38,203			
Hazardous Substances Response	31,393				
Controlled Maintenance Trust Fund					30,948
Uninsurable Health Insurance Plan	20,137				
Mineral Leasing	18,315				
Energy Conservation	14,132				
Victims of Crime	1,322				11,387
Public School Fund	10,878				
Species Conservation	10,278				
Petroleum Storage Tank Fund	10,068				
Nat. Resources Damage Recovery Fund	8,376				
Mined Land Reclamation	225				7,867
Uranium Mill Tailing Removal	7,136				
Workers Compensation Regulation	7,131				
Limited Gaming Impact Fund	6,207				
General Liability Fund	5,945				
Economic Development Moneys	5,630				
Old Age Pension Stabilization	5,000				
Drug Offenders Surcharge Fund	4,860				
Debt Retirement			4,711		
Federal or Other Restrictions				4,568	
Disaster Emergency Fund	4,462				

(Continued)

(Amounts in Thousands)

Reserved For	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Fiduciary Funds
Children's Basic Health Plan	4,081				
Central Indexing System	4,020				
Distributed Data Processing		3,693			
Aviation Fund	3,597				
Public Safety Communications Fund	3,473				
Secretary of State's Fees	3,458				
Real Estate Recoveries					2,963
Supreme Court Grievance Committee					2,737
Employment Support Fund	2,604				
Public Employees Social Security	2,567				
Brand Inspection Fund	2,562				
Patient Benefit Fund					2,391
Regulatory License and Fee Adjustment	2,349				
Treasurer's Escheats Fund					2,130
Disabled Telephone Users Fund	1,902				
Uniform Commercial Credit Code	1,860				
Housing Rehabilitation Revolving Loans					1,822
Motor Carrier Fund	1,714				
Emergency Medical Services		1,489			
Infant Immunization	1,469				
LEAF		1,414			
Unemployment Revenue Fund	1,313				
Art in Public Places	1,219				
Department of Law Custodial Fund	1,208				
Dealer License Board Fund	1,203				
State Rail Bank Fund	1,182				
Environmental Response Fund	1,129				
Off Highway Vehicles Fund	1,071				
Alcohol Driver Safety Fund	1,048				
Waste Tire Recycling Fund	1,018				
Low Income Telephone Assistance	1,016				
Comprehensive Health Education	1,014				
Other Special Purpose Programs	34,116	33			11,656
Totals	\$ 325,936	\$ 359,347	\$ 4,711	\$ 4,568	\$ 2,149,102

## M. PRIOR PERIOD ADJUSTMENTS

### Primary Government

On the *Combined Statement of Revenues, Expenditures, and Changes in Fund Balances, All Governmental Fund Types, Expendable Trust Funds, and Discretely Presented Component Units*, the fund balance of the General Fund decreased by \$2,900,187. This adjustment was to correct the under-recording of General Fund expenditures related to the Medicaid Program in Fiscal Year 1997-98. The adjustment did not cause the Department of Health Care Policy and Financing to report an overexpenditure because the Legislature made

an appropriation in 1999 to the Fiscal Year 1997-98 budget.

On the *Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Expendable Trust Funds*, the fund balance of the Deferred Compensation Plan, an expendable trust fund, increased by \$288,341,104. This adjustment reflects the implementation of Governmental Accounting Standards Board Statement No. 32 Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

that requires such plans to be reported in an expendable trust fund. The Plan was previously an agency fund. The fund balance of the Other Expendable Trust funds decreased by \$334,114 when the administrative portion of the deferred compensation plan was reclassified from an Other Expendable Trust fund to the Deferred Compensation Plan.

## N. TRANSFERS BETWEEN FUNDS

Major operating transfers between funds for the fiscal year ended June 30, 1999, were as follows:

(Amounts in Thousands)

Transfer	Amount
General Fund to Higher Education	\$ 661,012
General Fund to Capital Construction	472,259
Capital Construction to Higher Education	117,770
Capital Construction to Highway Fund	49,945
Lottery Fund to Conservation Trust Fund	33,859
Gaming Fund to General Fund	32,360
School Income Expendable Trust to General Fund	30,324
Highway Fund to General Fund	22,852
Wildlife Fund to Capital Construction Fund	20,712
Controlled Maintenance Trust to Capital Construction	17,625
Capital Construction to Debt Service Fund	16,427
General Fund to Highway Fund	11,609
Treasurer's Expendable Trust to General Fund	9,084
Lottery Fund to Wildlife Fund	8,465
Capital Construction to General Fund	8,452
Water Projects Construction Fund to General Fund	4,706
General Fund to Water Projects Construction Fund	3,821
Higher Education to General Fund	3,425
Other Expendable Trust Funds to General Fund	3,150
Gaming Fund to Highway Fund	3,066
Severance Tax Trust to General Fund	3,015
Highway Fund to Capital Construction	2,930
Wildlife Fund to General Fund	2,762
Central Services to General Fund	1,779
Prison Canteens to Capital Construction	1,607
State Lands to General Fund	1,220
Victims Compensation Trust Fund to General Fund	1,116
Other	11,767
Total	<u>\$ 1,557,119</u>

In addition to the above transfers, residual equity transfers were made to the proprietary funds from the governmental funds and the General Fixed Assets Account Group. In the proprietary funds, these transfers are shown as "Additions To Contributed Capital" in the fund equity section of the *Combined Statement of Revenues, Expenses, and Changes in Fund Equity, All Proprietary Fund Types, Similar Trust Funds, and Discretely Presented Component Units* in the amount of \$2,503,240. This amount comprises the following transactions:

- The State Fair Authority, an enterprise fund, received \$1,874,038 of fixed assets from the General

Fixed Assets Account Group. Previously the Department of Agriculture reported these fairground fixed assets in the General Fixed Assets Account Group. The account group does not have an operating statement; thus, there is not a corresponding transfer-out.

- The State Nursing Homes, an enterprise fund, received \$39,923 of fixed assets from the General Fixed Assets Account Group that were funded by the Capital Projects Fund and are shown as additions to contributed capital. The account group does not have an operating statement; thus, there is not a corresponding transfer-out.
- The Public Safety Fund, an internal service fund, received \$499,900 from the General Fixed Assets Account Group related to the purchase of an aircraft that was funded by the Capital Projects Fund. The transfer is shown as additions to contributed capital. The account group does not have an operating statement; thus, there is not a corresponding transfer-out.
- The Department of Transportation transferred \$89,379 from the Highway Fund, a special revenue fund, to the Highways Internal Service Fund.

The advances from private or public sources in the Capital Projects Fund on the *Combined Statement of Revenues, Expenditures, and Changes in Fund Balances* represent capital construction projects funded by internal service funds. Due to legal requirements, these projects are accounted for in the Capital Projects Fund.

## O. SEGMENT INFORMATION

### Primary Government

The principal activities of the state's enterprise funds are the guaranteed student loan program, the lottery, the state's nursing homes, the business enterprise program, enterprises at the state's prisons, and the state fair.

The guaranteed student loan program guarantees loans made by private lending institutions, in compliance with operating agreements with the U.S. Department of Education, to students attending postsecondary schools.

The State Lottery encompasses the various lottery and lotto games run under state statute. In the past, net proceeds were used to support various state construction projects. In Fiscal Year 1993-94, the Great Outdoors Colorado Program began the phased reduction of the amount of net lottery proceeds available for state construction projects.

The state nursing homes provide nursing home and retirement care to the elderly. The state's nursing homes are located at Homelake, Walsenburg, Florence, Rifle, and Trinidad.

The business enterprise program assists the visually impaired in operating businesses such as cafeterias in state office buildings.

Enterprise activities at the state's prisons include the sale of manufactured goods and farm products produced by convicted criminals incarcerated in the state's prison system.

Segment information for the enterprise funds of the state for the year ended June 30, 1999, is:

(Amounts in Thousands)

	GUARANTEED STUDENT LOAN	STATE LOTTERY	BUSINESS ENTERPRISE PROGRAM	STATE NURSING HOMES	PRISON CANTEENS	CORREC- TIONAL INDUSTRIES	STATE FAIR AUTHORITY	OTHER ENTERPRISE ACTIVITIES	TOTALS
Operating Revenue	\$ 78,986	\$368,812	\$ 671	\$ 18,052	\$ 8,815	\$ 28,504	\$ 5,233	\$ 3,513	\$512,586
Federal Grants and Contracts	60,954	-	642	5,134	-	-	-	1,062	67,792
Depreciation	683	446	182	495	48	895	815	33	3,597
Operating Income	10,358	83,155	(801)	(450)	1,333	875	(2,700)	(151)	91,619
Operating Transfers-In	-	-	-	228	-	96	-	48	372
Transfers-(Out)	(206)	(42,642)	-	(96)	(1,667)	(457)	-	(137)	(45,205)
Net Income (Loss)	10,152	(161)	(145)	(191)	(305)	569	(552)	(47)	9,320
Additions to Contributed Capital	-	-	-	40	-	-	1,874	-	1,914
Working Capital	47,485	115	495	3,025	3,576	12,478	(75)	1,388	68,487
Increase in Net Property, Plant, and Equipment	1,266	(62)	(157)	25	919	107	1,263	207	3,568
Total Assets	68,022	38,881	1,040	11,195	5,565	23,598	10,723	6,327	165,351
Bonds and Other Long- Term Liabilities	1,629	862	45	947	65	997	2,391	77	7,013
Fund Equity	48,932	1,376	807	9,192	5,000	19,771	6,674	5,525	97,277

## Component Units

The Colorado Water Resources and Power Development Authority's purpose is to initiate, acquire, construct, maintain, repair and operate, or cause to be operated, projects for the protection, preservation, conservation, upgrading, development and utilization of the water resources of the state.

The Denver Metropolitan Major League Baseball Stadium District includes all or part of the six counties in the Denver metro area. The District was created for the purpose of acquiring, constructing and operating a major league baseball stadium. The District levies a sales tax of one-tenth of one percent throughout this District for a period not to exceed 20 years for this purpose.

University Hospital is a nonsectarian, general acute care regional hospital, with seven outpatient clinics, operated by the University of Colorado Hospital Authority. It is

the teaching hospital of the University of Colorado Health Sciences Center. The hospital's mission is to provide education, research and a full spectrum of primary, secondary and tertiary health care services to the Denver metropolitan area and the Rocky Mountain Region.

The Colorado Uninsurable Health Insurance Plan is a nonprofit public entity created to provide access to health insurance for those Colorado residents that are unable to obtain health insurance, or unable to obtain health insurance except at prohibitive rates or with restrictive exclusions.

The Colorado Travel and Tourism Authority was created in 1994 for the purpose of promoting the State of Colorado as a quality travel and tourist destination through advertising, publications, and public relations activities.

## CONDENSED BALANCE SHEET

## ALL DISCRETELY PRESENTED COMPONENT UNITS

DOLLARS IN THOUSANDS	TRUST & AGENCY	PENSION TRUST FUND	PROPRIETARY FUND TYPES					TOTAL
	COLORADO WATER RESOURCES AND POWER DEVELOPMENT AUTHORITY	UNIVERSITY OF COLORADO HOSPITAL AUTHORITY	DENVER METROPOLITAN MAJOR LEAGUE BASEBALL STADIUM DISTRICT	UNIVERSITY OF COLORADO HOSPITAL AUTHORITY	COLORADO WATER RESOURCES AND POWER DEVELOPMENT AUTHORITY	COLORADO TRAVEL AND TOURISM AUTHORITY	COLORADO UNINSURABLE HEALTH INSURANCE PLAN	
ASSETS:								
Current Assets	\$ 47,147	\$ -	\$ 18,599	\$ 58,901	\$ 95,647	\$ 648	\$ 3,640	\$ 224,582
Investments	96,922	65,561	-	269,443	72,450	-	-	504,376
Property, Plant and Equip., net	-	-	184,217	171,056	102	6	4	355,385
Other Long-Term Assets	-	-	1,265	14,498	340,824	-	-	356,587
Total Assets	\$ 144,069	\$ 65,561	\$ 204,081	\$ 513,898	\$ 509,023	\$ 654	\$ 3,644	\$ 1,440,930
LIABILITIES:								
Current Liabilities	\$ 101,439	\$ -	\$ 1,048	\$ 59,627	\$ 38,791	\$ 627	\$ 2,133	\$ 203,665
Notes and Bonds Payable	-	-	68,805	238,324	308,997	-	-	616,126
Other Long-Term Liabilities	-	-	-	5,562	2,342	-	-	7,904
Total Liabilities	101,439	-	69,853	303,513	350,130	627	2,133	827,695
FUND EQUITY:								
Contributed Capital	-	-	386	-	92,375	-	-	92,761
Retained Earnings	-	-	133,842	-	66,518	27	1,511	201,898
Fund Balances:								
Reserved	42,630	65,561	-	-	-	-	-	108,191
Undesignated	-	-	-	210,385	-	-	-	210,385
Total Fund Equity	42,630	65,561	134,228	210,385	158,893	27	1,511	613,235
Total Liabilities and Fund Equity	\$ 144,069	\$ 65,561	\$ 204,081	\$ 513,898	\$ 509,023	\$ 654	\$ 3,644	\$ 1,440,930

## CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

## ALL DISCRETELY PRESENTED COMPONENT UNITS - PROPRIETARY FUNDS

DOLLARS IN THOUSANDS	PROPRIETARY FUND TYPES					TOTAL
	DENVER METROPOLITAN MAJOR LEAGUE BASEBALL STADIUM DISTRICT	UNIVERSITY OF COLORADO HOSPITAL AUTHORITY	COLORADO WATER RESOURCES AND POWER DEVELOPMENT AUTHORITY	COLORADO TRAVEL AND TOURISM AUTHORITY	COLORADO UNINSURABLE HEALTH INSURANCE PLAN	
OPERATING REVENUES	\$ 954	\$ 260,609	\$ 20,167	\$ 1,587	\$ 3,328	\$ 286,645
OPERATING EXPENSES:						
Depreciation	4,839	17,184	39	1	2	22,065
Other Operating Expenses	118	233,769	18,639	1,517	6,321	260,364
Total Operating Expenses	4,957	250,953	18,678	1,518	6,323	282,429
Operating Income/Excess (Loss)	(4,003)	9,656	1,489	69	(2,995)	4,216
Non-Operating Revenues and (Expenses)/Transfers:						
Taxes	30,041	-	-	-	-	30,041
Other	(5,665)	11,829	5,732	-	2,409	14,305
Transfers, net	-	-	2,701	-	-	2,701
Total Non-Operating Revenues and (Expenses)/Transfers	24,376	11,829	8,433	-	2,409	47,047
Net Income/Change in Retained Earnings	20,373	21,485	9,922	69	(586)	51,263
Fund Equity/Balance, Beg. of Year	113,855	188,900	130,577	(42)	2,097	435,387
Additions (Deductions) to Contributed Capital	-	-	18,394	-	-	18,394
Fund Equity/Balance, End of Year	\$ 134,228	\$ 210,385	\$ 158,893	\$ 27	\$ 1,511	\$ 505,044

## P. OTHER DISCLOSURES

### Primary Government

The Colorado Medical Services Foundation, a related organization, was established to support patient billing and collections for physician fees for the University of Colorado Health Sciences Center. During Fiscal Years 1998-99 and 1997-98, the university was reimbursed \$72.7 million and \$65.3 million, respectively, from the foundation for salaries, fringe benefits, and related costs. In addition, the foundation reimbursed the university \$696,262 for professional liability insurance and administrative costs in Fiscal Year 1998-99. At June 30, 1999, the foundation owed the university \$191,290.

The University of Colorado Foundation, Inc., an unconsolidated affiliated corporation, was established in 1967 as a separate corporation to solicit, collect, and invest donations for the university. The foundation distributed \$38.0 million and \$32.9 million to the university in Fiscal Year 1998-99 and 1997-98, respectively.

The Colorado State University Foundation was established to receive, manage, and invest philanthropic gifts to Colorado State University. During Fiscal Years 1998-99 and 1997-98, the foundation transferred \$16.8 million and \$12.0 million, respectively, to the university.

The Fort Lewis College Foundation was established to assist in promoting, developing, and enhancing the facilities and programs of the college. During Fiscal Years 1998-99 and 1997-98, the foundation transferred \$878,236 and \$479,527, respectively, to the college.

The Colorado School of Mines Foundation, Inc. was established in 1928 as a separate corporation for the purpose of benefiting the School of Mines by soliciting, collecting, and investing donations. During Fiscal Years 1998-99 and 1997-98, the school received \$6,863,799 and \$5,819,892 respectively from the foundation. The foundation owed the school \$132,351 at June 30, 1999.

The Colorado School of Mines Building Corporation was established in 1976 for the purpose of building a facility to house the United States Geological Survey. The Geological Survey leases the facility from the corporation. The net assets of the corporation at June 30, 1999 and June 30, 1998 were \$2,961,486 and \$4,007,672 respectively.

During Fiscal Years 1998-99 and 1997-98 the Department of Local Affairs distributed \$1,018,778 and \$1,416,184 respectively, to the Colorado Housing and Finance Authority (CHAFA), a related party. The Fiscal Year 1998-99 distribution represented 50 percent of the revenues of the waste-tire-recycling program. At June 30, 1999, the state owed CHAFA \$13,302.

The Great Outdoors Colorado Board (GOCO) is a constitutionally created entity whose purpose is to administer the Great Outdoors Colorado Program and Trust Fund. The purpose of the program is to invest money it receives from the Colorado Lottery in the wildlife and outdoor recreation resources of the state. During Fiscal Years 1998-99 and 1997-98, the board transferred \$10,055,707 and \$7,650,967 respectively to the Department of Natural Resources. At June 30, 1999, GOCO owed the Department of Natural Resources \$2.8 million.

### Component Units

The University of Colorado Hospital Authority received a net state appropriation of \$7.7 million in both Fiscal Years 1998-99 and 1997-98 for indigent care. In addition, the hospital participates in the Colorado Disproportionate Share Hospital Program. The hospital received net reimbursements for this program from the state of \$17.7 and \$16.2 million for the years ended June 30, 1999 and 1998, respectively. For the same years, the Hospital received \$3.16 million and \$4.39 million related to service provided to medically indigent patients in prior years.

The authority and the University of Colorado Health Sciences Center have developed and received approval for an Institutional Master Plan to create a new academic health sciences center over the next 20 to 50 years. The U.S. Department of Education and the U.S. Army approved the transfer of 186 acres of land and buildings at the Fitzsimons Army Medical Center to the University of Colorado in federal Fiscal Year 2002-03. The Army has conveyed 88 acres under quit claim deeds in advance of the official transfer. The Authority entered a 30 year Ground Lease agreement with the University of Colorado Regents for 18.4 acres with a one dollar annual fee. The agreement provides for renewals up to 99 years and with certain exceptions, the Ground Lease states that the Authority shall own all buildings or improvements, which it constructs on the property.

Under the Operating Agreement between the University of Colorado Regents and the University of Colorado Hospital Authority dated July 1, 1990, the Regents have entered into contracts with the hospital for the provision of services in support of programs and operations of the University of Colorado Health Sciences Center. Amounts of approximately \$23.9 million and \$20.0 million were paid for these services in Fiscal Years 1998-99 and 1997-98, respectively. Other contracts with the Regents for storage facilities, student health services, and research projects resulted in reimbursements of approximately \$4.2 million and \$3.8 million in Fiscal Years 1998-99 and 1997-98, respectively.

The hospital has contracted with University Physicians, Inc. (UPI), a related party, for the administration of various hospital programs and for various professional laboratory services. The hospital and UPI have also entered other joint arrangements in furthering the missions of both organizations. Amounts of approximately \$19.4 million and \$18.2 million were paid for these programs during Fiscal Years 1998-99 and 1997-98, respectively.

The hospital leases certain employees to the Adult Clinical Research Center (CRC), a related party, at full cost and provides overhead and ancillary services for CRC patients. Charges of approximately \$1.2 million and \$1.4 million were billed to CRC for the cost of these services during Fiscal Years 1998-99 and 1997-98, respectively.

The hospital also leases certain employees to the Colorado Psychiatric Hospital (CPH), a related party, and provides various clinical and administrative services. Amounts for these services charged by the hospital were approximately \$7.4 million and \$6.8 million during Fiscal Years 1998-99 and 1997-98, respectively.

Amounts due from the Health Sciences Center, including CPH and CRC, amounted to \$2.5 million and \$3.0 million at June 30, 1999 and 1998, respectively.

The hospital entered certain provider and network management agreements with the TriWest Healthcare Alliance Corporation. TriWest was formed to deliver health care services to eligible beneficiaries of the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS). On June 27, 1996, the U.S.

Department of Defense awarded TriWest the CHAMPUS contract for a five-year period that began April 1997. As part of the agreements, the hospital purchased a minority interest in TriWest for approximately \$3.3 million. This was recorded as "Other Assets" and is accounted for under the cost method. The hospital agreed to secure a letter of credit for \$4.6 million to cover the hospital's share of any potential losses of TriWest. At June 30, 1999, no amounts had been drawn on the letter of credit.

The hospital is negotiating with UPI to assume 30% participation in the hospital's investment in TriWest. As part of its negotiations, the hospital received a capital contribution of \$993,750 from UPI. Under the current terms of the draft contract between the hospital and UPI, UPI will sign a \$1,380,000 letter of credit, equal to 30 percent of the hospital's letter of credit commitment to TriWest. In a separate agreement, UPI has signed an agreement with the hospital to assume its network management obligations related to TriWest.

Chartwell Rocky Mountain Region is a Colorado general partnership between the hospital and Chartwell Home Therapies Limited Partnership, a Massachusetts limited partnership. Chartwell Rocky Mountain Region was formed to provide home infusion and respiratory services to alternate site patients. The partnership began in April 1996. The hospital and Chartwell Home Therapies Limited Partnership each have a 50 percent ownership in Chartwell Rocky Mountain Region. Separate financial statements of Chartwell Rocky Mountain Region are available from Chartwell Home Therapies Limited Partnership.

**NOTE IV. COMMITMENTS AND CONTINGENCIES**

**A. CHANGES IN LONG-TERM LIABILITIES**

Changes in long-term liabilities are summarized as follows:

**Primary Government**

(Amounts in Thousands)

	Governmental Fund Types	Proprietary Fund Types	Trust & Agency Funds	Long-Term Debt Accounts	College & University Funds	Totals
Beginning Balance, July 1, 1998	\$ 4,368	\$ 31,387	\$ 507,245	\$454,783	\$590,403	\$1,588,186
Obligations Issued or Assumed	-	519	-	-	52,936	53,455
Obligations Retired or Reclassified	-	(612)	-	-	(52,411)	(53,023)
Increase (Decrease) in Deposits Held	8,394	31	(43)	-	(588)	7,794
Increase (Decrease) in Capital Leases	-	3,272	5	(11,558)	10,061	1,780
Increase (Decrease) in Comp. Absences	-	122	(9)	1,089	1,462	2,664
Increase (Decrease) in Deferred Comp.	-	-	(288,007)	-	-	(288,007)
Increase (Decrease) in Other Liabilities						
Tax Refunds Payable	-	-	(6,307)	-	-	(6,307)
Treasury Escheats	-	-	356	-	-	356
Risk Management Claims	-	-	-	1,317	(4,061)	(2,744)
Unpaid Insurance Claims	-	(199)	-	(380)	-	(579)
Expired Warrants Liability	-	3	-	-	-	3
Labor Fund Claims	-	-	-	(22,474)	-	(22,474)
Highway Construction Advances	-	-	-	(1,000)	-	(1,000)
Other	96	-	-	-	72	168
Ending Balance June 30, 1999	\$ 12,858	\$ 34,523	\$ 213,240	\$421,777	\$597,874	\$1,280,272

**Component Units**

(Amounts in Thousands)

	Denver Metropolitan Major League Baseball Stadium District	University Of Colorado Hospital Authority	Colorado Water Resources and Power Development Authority	Colorado Travel and Tourism Authority	Colorado Uninsurable Health Insurance Plan	Totals
Beginning Balance	\$ 94,566	\$ 139,623	\$243,629	\$ -	\$ -	\$ 477,818
Obligations Issued	-	110,000	105,460	-	-	215,460
Obligations Retired or Reclassified	(25,761)	(4,009)	(40,092)	-	-	(69,862)
Increase (Decrease) in Comp. Absences	-	399	-	-	-	399
Increase (Decrease) in Other Liabilities	-	(2,127)	2,342	-	-	215
Ending Balance	\$ 68,805	\$ 243,886	\$311,339	\$ -	\$ -	\$ 624,030



## B. LEASE COMMITMENTS

### Primary Government

The state may enter lease or rental agreements for buildings or equipment. All leases contain clauses indicating that continuation of the lease is subject to funding by the legislature. It is reasonably assured that most of these leases will be renewed in the normal course of business. They are therefore treated as noncancelable for financial reporting purposes.

At June 30, 1999, the state had \$2.8 million of land, \$261.6 million of buildings, and \$121.4 million of equipment under capital leases. The state projects receiving \$4.2 million of minimum sublease rentals and had paid \$23,709 of contingent rentals.

Colorado State University Research Foundation, a related party, is a not-for-profit Colorado corporation, established to aid and assist the three universities governed by the State Board of Agriculture in their research and educational efforts. The support provided by the foundation to the universities includes patent and licensing management, equipment leasing, municipal lease administration, debt financing, and land acquisition, development and management. Colorado State University System is sub-leasing space from the foundation. The total obligation is \$1,549,000 with average annual lease payments of \$386,000. Colorado State University is also sub-leasing space from the foundation. The total obligation is \$3,576,000, with average annual lease payments of \$948,000.

The university is also leasing equipment from the foundation and has a total lease obligation of \$1,663,000 with terms ranging from one to six years.

Fort Lewis College is leasing assets from the Fort Lewis College Foundation and had a lease payable of \$419,637 at June 30, 1999.

The state is obligated under certain leases that are accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations. Therefore, the results of the lease agreements are not reflected in the balance sheets of the funds or account groups.

For Fiscal Year 1998-99, the state had building and land rental expenditures of \$27.2 million and equipment and vehicle rental expenditures of \$40.7 million paid to non-state agencies.

The state recorded \$4.7 million of lease interest costs of which approximately \$2.8 million was for certificates of participation for capital financing, \$1.7 million was for state motor fleet vehicle leasing, and \$.2 million was for other capital leases.

The \$2.67 million of capital lease proceeds shown in the General Fund on the *Combined Statement of Revenues, Expenditures, and Changes in Fund Balance* represents lease financing of computers by the Department of Human Services.

Future minimum payments at June 30, 1999, for existing leases were as follows:

(Amounts in Thousands)

		Capital Leases					
	Fiscal Year	Operating Leases	Enterprise Funds	Internal Service Funds	Trust & Agency Funds	General Long-Term Debt	College & University Funds
	2000	\$ 32,192	\$ 709	\$12,615	\$ 41	\$ 6,939	\$ 18,701
	2001	25,322	582	10,593	28	6,703	19,540
	2002	22,105	200	8,063	15	6,125	14,106
	2003	18,537	200	5,282	10	5,581	12,496
	2004	16,732	188	3,581	5	4,565	11,553
	Thereafter	46,846	129	1,172	-	9,003	115,744
Total Minimum Lease Payments		<u>\$161,734</u>	2,008	41,306	99	38,916	192,140
Less: Imputed Interest			(271)	(4,073)	(10)	(6,161)	(68,495)
Present Value of Minimum Lease Payments			1,737	37,233	89	32,755	123,645
Less: Current Portion			(522)	(10,922)	-	-	(2,371)
Total Capital Lease Obligations			\$1,215	\$26,311	\$ 89	\$ 32,755	\$ 121,274

### Component Units

The University of Colorado Hospital Authority leases certain equipment under non-cancelable operating leases. Rental expense for operating leases approximated \$5.7 million and \$5.6 million for Fiscal Years 1998-99 and 1997-98, respectively. Future minimum lease payments for these leases at June 30, 1999 are:

Fiscal Year	Amounts in Thousands
2000	\$ 4,789
2001	996
2002	457
2003	385
2004	385
Thereafter	689
Total Minimum Obligations	<u>\$ 7,701</u>

The Colorado Water Resources and Power Development Authority leases office facilities under an operating lease which expires December 31, 2000. Total rental expense for the year ended December 31, was \$87,132 in 1998 and \$73,312 in 1997. The future minimum annual rental commitments under this lease are \$85,729 for 1999 and 2000.

### C. NOTES AND BONDS PAYABLE

#### Primary Government

Many institutions of higher education and the state nursing homes have issued bonds and notes for the purchase of equipment and construction of facilities. Specific user revenues are pledged for the payments of interest and future retirement of the obligations. During Fiscal Year 1998-99, the state had \$121.5 million of available net revenue after operating expenses to meet the \$34.6 million of debt service requirement related to these bonds. The state is not aware of any violations of any note or bond covenants by itself or any of its institutions at June 30, 1999, or after that date.

The state recorded \$32.6 million of interest costs of which approximately \$5.9 million was for short-term borrowings by the treasurer, \$8.6 million was for the Guaranteed Student Loan Program, \$14.2 million was for debt issued by various institutions of higher education, and \$3.9 million of operating interest.

Annual maturities of notes and bonds payable, including \$4.5 million classified as other current liabilities and \$2.6 million of unamortized bond discounts and premiums, are as follows:

(Amounts in Thousands)						
Fiscal Year	Revenue Bonds	Anticipation Warrants	Mortgages Payable	Installment Notes	Total	
2000	\$ 35,950	\$ 126	\$ 50	\$ 404	\$ 36,530	
2001	34,043	128	50	206	34,427	
2002	33,421	130	50	193	33,794	
2003	33,321	-	50	185	33,556	
2004	32,598	-	50	29	32,677	
2005-2009	155,646	-	250	-	155,896	
2010-2014	121,581	-	-	-	121,581	
2015-2019	67,329	-	-	-	67,329	
2020-2024	28,229	-	-	-	28,229	
2025-2029	9,892	-	-	-	9,892	
Total Future Payments	552,010	384	500	1,017	553,911	
Less: Imputed Interest	(202,607)	(54)	(114)	(11)	(202,786)	
Total Principal Payments	<u>\$ 349,403</u>	<u>\$ 330</u>	<u>\$ 386</u>	<u>\$ 1,006</u>	<u>\$ 351,125</u>	

### Component Units

The debt service requirements to maturity for the Denver Metropolitan Major League Baseball Stadium District and the Water Resources and Power Development Authority at December 31, 1998 are:

(Amounts in Thousands)		
Year	Denver Metropolitan Major League Baseball Stadium District	Colorado Water Resources and Power Development Authority
1999	\$ 14,612	\$ 31,848
2000	14,610	32,499
2001	14,612	32,223
2002	41,982	32,231
2003	-	31,842
Thereafter	-	337,922
Total Future Payments	85,816	498,565
Less: Imputed Interest	(10,736)	(175,889)
Unamortized Discount and Losses	(6,275)	-
Total Principal Payments	<u>\$ 68,805</u>	<u>\$ 322,676</u>

The Denver Metropolitan Major League Baseball Stadium District's bonds are secured by pledged revenues consisting principally of the net proceeds derived by the district from the levy of a one-tenth of one percent sales tax upon all taxable retail sales within the six county area comprising the jurisdiction of the district.

The outstanding bond principal and interest payments are also unconditionally and irrevocably guaranteed under a noncancelable insurance policy issued by Financial Guaranty Insurance Company. The company has a lien on the district's assets, subordinate to that granted to the bondholders, to secure repayment of amounts paid and expenses incurred by it, if any, under the policy.

The Denver Metropolitan Major League Baseball Stadium District's 1994 refunding resulted in an economic gain of \$2.4 million and a book loss of \$13.5 million. The District amortized \$1.8 million and \$1.5 of the book loss respectively for fiscal years 1998 and 1997 respectively.

All of the Water Resources and Power Development Authority's Small Water Resources Program bonds and

the Series 1989A and Series 1990A Clean Water Revenue Bonds and Series 1989A and Series 1990A State Match Revenue Bonds are insured as to payment of principal and interest by Financial Guaranty Insurance Company. The Clean Water Revenue Bonds, Series 1992A are insured as to payment of principal and interest by Financial Security Assurance, Inc. The Wastewater Revolving Fund Refunding Revenue Bonds, Series 1996A are insured as to payment of principal and interest by AMBAC Indemnity Corporation. Total interest paid during 1998 amounted to \$15,201,276.

During Fiscal Years 1998-99 and 1997-98, the University of Colorado Hospital Authority met all the financial ratio requirements of its bond indenture. Cash paid for interest by the hospital in Fiscal Years 1998-99 and 1997-98 approximated \$7.0 million and \$7.8 million, respectively. Total interest cost capitalized in Fiscal Year 1998-99 amounted to \$1.3 million, which is net of \$1.6 million in investment income from the unexpended bond funds.

The aggregate maturities of long-term debt for University of Colorado Hospital Authority at June 30, 1999 are:

(Amounts in Thousands)	
Year	
2000	\$ 3,190
2001	3,310
2002	3,430
2003	4,170
2004	4,350
Thereafter	235,670
Total Long-Term Debt Payments	254,120
Unamortized Discount	(3,577)
Deferred Amount on Refunding from Series 1997A Bonds	(9,029)
Total Carrying Amount of Long-Term Debt	<u>\$ 241,514</u>

In April 1999, the University of Colorado Hospital Authority issued Series 1999A revenue bonds in the amount of \$110.0 million. Proceeds from the sale of the bonds will fund a portion of the cost of the construction and equipping of certain facilities on a new health care campus to be located at the former Fitzsimons Army Medical Center.

#### D. OTHER LONG-TERM LIABILITIES

The following obligations, listed by fund type, represent amounts owed by the state at June 30, 1999, which are

classified as other long-term liabilities on the balance sheet:

(Amounts in Thousands)

	General Fund	Proprietary Funds	Trust & Agency Funds	Long-Term Debt Accounts	College & University Funds	Totals
Tax Refunds Payable	\$ -	\$ -	\$2,583	\$ -	\$ -	\$ 2,583
Treasury Escheats	-	-	1,463	-	-	1,463
Risk Management Claims	-	-	-	99,388	29,518	128,906
Unpaid Insurance Claims	-	44	-	1,189	-	1,233
Expired Warrant Liability	-	110	-	-	-	110
Labor Fund Claims	-	-	-	181,636	-	181,636
Highway Construction Advances	-	-	-	2,000	-	2,000
Other	392	-	-	-	4,941	5,333
Totals	\$ 392	\$ 154	\$4,046	\$ 284,213	\$ 34,459	\$323,264

Tax Refunds Payable in the trust and agency funds are bonds posted by taxpayers concerning the collections of gross-ton-mile and fuel tax, and the deferment of delinquent severance taxes estimated to be collected after more than one year.

Treasury Escheats in the trust and agency funds reflect liabilities recorded related to perpetual property rights of individuals. The property rights are from assets that financial institutions and insurance companies have transferred to the state treasurer under state law. The amount recorded is an estimate based on historical claims of the fund.

The Risk Management Claims in the Long-Term Debt Account Group are the actuarially determined amounts in excess of the current liability in the General Fund related to self-insurance of general liability. It also represents expected claims under the prior Paid Loss/Retro Plan and the state's current self-insurance plan for workers' compensation. The Risk Management Claims in the College and University Funds are for the University of Colorado's self-insurance program for general liability, property, workers' compensation, medical benefits, and medical malpractice.

The Unpaid Insurance Claims in the Long-Term Debt Account Group are for the Department of Human Services workers' compensation self-insurance. A third party claims administrator currently manages the plan.

Expired Warrants Liability is for warrants issued by the Lottery Fund that have expired but for which the Lottery would be liable if the payee submitted a claim for reissue.

Long-term liabilities of the Labor Fund are recorded in the General Long-Term Debt Account Group. Estimated future payments are actuarially determined. Benefits are expected to be funded through future revenues from a special tax on workers' compensation premiums, court awards, and interest income.

Highway Construction Advances in the Long-Term Debt Account Group are related to funds that local governments provided to the Department of Transportation. The Department uses these funds to accelerate highway construction projects of interest to the local government. The funds will be repaid to the local government at the time when the project was scheduled to be completed.

#### E. DEFEASED DEBT

##### Primary Government

Debt is defeased by depositing in escrow accounts an amount sufficient, together with known minimum investment yields, to pay principal, interest, and any redemption premium on the debt to be defeased. During Fiscal Year 1998-99, debt was defeased in the College and University Plant Funds.

The balances placed in escrow type accounts with paying agents for the college and university funds are as follows:

(Amounts in Thousands)

University of Colorado	\$49,985
Auraria Higher Education Center	34,155
University of Northern Colorado	18,570
Colorado State University	15,733
Western State College	11,830
School of Mines	11,765
Fort Lewis College	8,904
Pueblo Community College	3,200
Red Rocks Community College	2,880
Adams State College	1,000
Arapahoe Community College	255
University of Southern Colorado	<u>110</u>
Total	<u>\$158,387</u>

During Fiscal Year 1998-99, Fort Lewis College defeased \$4,570,000 of its Auxiliary Facilities Refunding and Improvement Revenue Bonds, Series 1992, by issuing \$5,117,338 of Auxiliary Facilities Enterprise Refunding Revenue Bonds, Series 1998A. The old debt had an interest rate of 6.5% and a term of 14 years. The new debt carries interest rates ranging from 3.85% to 4.70% and a term of 14 years. Fort Lewis College reduced its debt service cash flows by \$755,549 and reported an economic gain of \$366,322. The transaction resulted in an accounting loss of \$334,515 that the College recorded in the plant funds.

During Fiscal Year 1998-99, Red Rocks Community College defeased \$2,880,000 of bonds issued in 1995 for construction of its student center by issuing \$3,260,000 of new bonds. The old debt had interest rates ranging from 5.2% to 6.0% and a term of 25 years. The new debt carries interest rates ranging from 3.2% to 4.5% and a term of 21 years. Red Rocks Community College reduced its debt service cash flows by \$108,982 and reported an economic gain of \$87,650. The transaction resulted in an accounting loss of \$227,712 that the College recorded in the plant funds.

During Fiscal Year 1998-99, Pueblo Community College defeased \$3,200,000 of bonds issued in 1992 for construction of its student center by issuing \$3,490,000 of new bonds. The old debt had interest rates ranging from 4.7% to 5.85% and a term of 25 years. The new

debt carries interest rates ranging from 3.2% to 4.5% and a term of 19 years. Pueblo Community College reduced its debt service cash flows by \$166,926 and reported an economic gain of \$129,302. The transaction resulted in an accounting loss of \$159,847 that the College recorded in the plant funds.

### Component Units

The Denver Metropolitan Major League Baseball Stadium District in-substance defeased \$14.6 million and \$2.5 million of its 1994 revenue bonds in Fiscal Years 1998 and 1997 respectively. It had total debt service, including principal and interest, remaining for its in-substance defeased debt of \$20.2 million at December 31, 1998.

The Colorado Water Resources and Power Development Authority had \$66,715,000 of bonds previously issued but defeased at December 31, 1998. On January 7, 1998, the authority issued \$12,500,000 of 1997 Series B Small Water Resources Revenue Bonds with an average interest rate of 4.73% to advance refund \$11,170,000 of similarly named bonds in the 1991 Series A and 1992 Series A. This transaction reduced total debt service payments by almost \$940,000 and resulted in an economic gain of approximately \$656,000. On October 7, 1998, the authority issued \$13,850,000 of 1998 Series B Small Water Resources Revenue Bonds with an average interest rate of 4.48% to advance refund \$12,730,000 of similarly named bonds in the 1992 Series B and 1994 Series B. This transaction reduced total debt service payments by almost \$932,000 and resulted in an economic gain of approximately \$674,000. In these transactions, the authority incurred \$2,450,000 of refunding costs that have been deferred and will be amortized over the life of the new debt.

On November 1, 1997, the University of Colorado Hospital Authority issued \$123,900,000 in Hospital Refunding Revenue Bonds to advance refund Series 1992A bonds. At June 30, 1999, \$111.2 million of bonds outstanding are considered defeased. The refunding resulted in a deferred loss, which the hospital is charging to operations through Fiscal Year 2022-23. At June 30, 1999, the unamortized deferred loss on refunding is \$9.0 million. The Hospital completed the advance refunding to reduce its total debt service payments over the next 25 years by \$6.5 million and to obtain an economic gain of \$3.7 million.

## F. RISK MANAGEMENT

### Primary Government

The state currently self-insures its agencies, officials, and employees for the risks of losses to which they are exposed. This includes general liability, motor vehicle liability, worker's compensation, and medical claims. The Risk Management Fund is a restricted General Fund used for claims adjustment, investigation, defense, and authorization for the settlement and payment of claims or judgments against the state except for employee medical claims. The State Employees and Officials Insurance Fund is an Internal Service Fund established for the purpose of risk financing employee and state-official medical claims. Property claims are not self-insured; rather the state has purchased insurance.

All funds and agencies of the state, with the exception of the public authorities and the University of Colorado, participate in the Risk Management Fund. Agency premiums are based on an assessment of risk exposure and historical experience. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. A contractor completed an actuarial study during Fiscal Year 1998-99.

Colorado employers are liable for occupational injuries and diseases of their employees. Benefits are prescribed by the Worker's Compensation Act of Colorado for medical expenses and loss of wages resulting from job-related disabilities. The state uses the services of the Colorado Compensation Insurance Authority, a related party, to administer its plan. The state reimburses the Authority for the current cost of claims paid and related administrative expenses.

During Fiscal Years 1998-99, 1997-98, and 1996-97 medical claims against the State Employees and Officials Insurance Fund (SEOGI) exceeded the premiums collected. This resulted in decreases in the medical reserve fund equity of approximately \$4.7 million, \$3.8 million, and \$6.5 million respectively. The fund includes several medical plan options ranging from provider of choice to managed care. Beginning in year 2000, SEOGI will make changes to benefit levels and will purchase

insurance to address the continuing decrease in the medical reserve fund equity.

Before January 1, 1999, the State Employees and Officials Insurance Fund also provided an employer paid short-term disability plan for all employees. On January 1, 1999, the Public Employees Retirement Association (PERA) began covering short-term disability claims for state employees eligible under its retirement plan (See Note V-A). SEOGI continues to provide short-term disability coverage for employees not yet qualified for the retirement plan and limited benefits for employees also covered under the PERA short-term disability plan. The SEOGI program provides an employee with 60 percent of their pay beginning after 30 days of disability or the exhaustion of the employee's sick leave balance, whichever is later. This benefit expires six months after the beginning of the disability.

Before October 1, 1996, the Regents of the University of Colorado participated in the University of Colorado Insurance Pool – a public-entity self-insurance pool. After that date, the university became self-insured for worker's compensation, auto, general and property liability, and employee and university-official medical claims. A third party handles the university's medical claims through a contractual agreement. The university has also purchased stop-loss insurance for individual medical claims more than \$500,000.

The University of Colorado Health Sciences Center's Housestaff Health Benefits Plan is a comprehensive self-insurance health benefits program for physicians in training at the Health Sciences Center. The University manages excess risk exposure for staff medical claims by purchasing stop-loss insurance. Collections from the stop-loss insurance totaled \$82,127 over the three previous years. The Center also self-insures its faculty, staff and students for medical malpractice through the University of Colorado Self-Insurance Risk Management Trust. The discounted liability for malpractice is determined annually by an actuarial study.

The Department of Human Services uses a third party administrator to manage claims related to the Human Services Workers' Compensation Plan. However, new claims are administered by Risk Management and paid from the Risk Management Workers' Compensation Plan.

There were no significant reductions or changes in insurance coverage from the prior year in any of the above mentioned risk management arrangements. Settlements did not exceed insurance coverage in any of the past three fiscal years.

Changes in the balances of claims liabilities were as follows:

Amounts in Thousands				
Fiscal Year	Liability at July 1	Current Year Claims and Changes in Estimates	Claim Payments	Liability at June 30
Risk Management:				
Liability Fund				
1998-99	\$ 23,095	\$ 1,976	\$ 2,060	\$ 23,011
1997-98	21,124	7,936	5,965	23,095
1996-97	20,676	3,858	3,410	21,124
Workers' Compensation				
1998-99	98,328	24,429	20,171	102,586
1997-98	95,749	28,470	25,891	98,328
1996-97	83,202	37,980	25,433	95,749
Employee's and Officials Insurance Fund:				
1998-99	10,733	66,369	63,522	13,580
1997-98	10,285	60,571	60,123	10,733
1996-97	9,200	63,701	62,616	10,285
University of Colorado:				
General Liability, Property, and Workers' Compensation				
1998-99	16,918	3,270	4,883	15,305
1997-98	19,329	3,666	6,077	16,918
1996-97	18,366	7,441	6,478	19,329
Medical Benefits Plan				
1998-99	7,902	27,934	30,016	5,820
1997-98	5,761	30,957	28,816	7,902
1996-97	13,492	26,447	34,178	5,761
Univ. of Colorado Health Sciences Center:				
Medical Malpractice				
1998-99	8,167	515	843	7,839
1997-98	7,089	1,902	824	8,167
1996-97	7,427	878	1,216	7,089
Housestaff Health Benefits				
1998-99	592	2,436	2,475	553
1997-98	526	2,500	2,434	592
1996-97	473	2,544	2,491	526
Department of Human Services:				
Workers' Compensation				
1998-99	1,570	-	381	1,189
1997-98	1,951	-	381	1,570
1996-97	2,375	-	424	1,951

## Component Units

As of October 1, 1989, the University of Colorado Hospital Authority began self-insuring against malpractice claims in excess of coverage provided by the University of Colorado Self Insurance Risk Management Trust in which the hospital participates. The trust had a fund balance in excess of reserves for losses and loss adjustment expense and the hospital received a refund of \$421,000 in Fiscal Year 1998-99. The hospital had established an additional self-insurance trust fund for uninsured losses, funding of which was determined by an independent actuarial computation. However, according to the June 30, 1999 actuarial report, the hospital no longer has any exposure related to the period when it may not have been a governmental entity. Consequently, the excess self-insurance fund is no longer necessary.

The hospital purchased insurance coverage from the University of Colorado Insurance Pool (UCIP) for workers' compensation, property, crime, auto and general liability until September 30, 1996. Beginning October 1, 1996 the hospital began using commercial insurance carriers instead of UCIP. The hospital believes that it has adequately provided for the liability, if any, that may develop while it was covered by UCIP. The hospital purchases insurance coverage for employee health, dental and accident claims through the University of Colorado and other commercial insurance companies.

The Denver Metropolitan Major League Baseball Stadium District purchases commercial insurance to mitigate most of its risk of loss. It requires its lessee and contractors to cover certain other risks. Claims have not exceeded insurance coverage in the past three years except for \$58,000 the District paid in settlement of a construction claim liability.

The Colorado Water Resources and Power Development Authority maintains commercial insurance for most all risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The Colorado Travel and Tourism Authority maintains commercial insurance for most all risks of loss. Settled claims have not exceeded this commercial coverage in either of the past two years.

## G. CONTINGENCIES

### Primary Government

Most claims against the state are limited by the Colorado Governmental Immunity Act that sets upper limits of state liability at \$150,000 per person and \$400,000 per occurrence. Judgments awarded against the state for

which there is no insurance coverage or which are not payable from the Risk Management Fund ordinarily require a legislative appropriation before they may be paid.

Numerous court cases are pending in which the plaintiffs allege that the state has deprived persons of their civil rights or inadequately compensated them for their property. In the aggregate, the monetary damages (actual, punitive, and attorney's fees) claimed in the civil rights cases would exceed the insurance coverage available by a material amount. The state believes it is highly unlikely that there will be actual awards of judgments in material amounts.

The state is a defendant in numerous lawsuits involving claims of inadequate, negligent, or unconstitutional treatment of prisoners and mental patients. In some of these suits, plaintiffs are seeking or have obtained certification as a class for a class action suit. Most of these cases seek actual damages that are not material but include request for punitive damages that may be material. There is also the potential that the courts may rule that the current conditions of confinement are unconstitutional.

The state is defendant in lawsuits by employees accusing the state of various infractions of law or contract. These include claims related to age and sex discrimination, wrongful termination, contractual agreements for paying of salaries based on parity and equity, and overtime compensation under the Federal Fair Labor Standards Act. The state does not believe that any of these cases are material to its financial operations.

Many state agencies have grant and contract agreements with the federal government and other parties. These agreements generally provide for audits of the transactions pertaining to the agreements, with the state being liable to those parties for any disallowed expenditure. The state is contesting the disallowance related to such audits, and the outcome is uncertain at this time.

The Colorado Student Loan Program, in the event of adverse loss experience, could be liable for approximately 25 percent (\$381.0 million) of the outstanding balance of loans in repayment status. However, the probability of a material loss is remote.

The Colorado Association of Public Employees has sued the state seeking to void certain mental-health-services contracts in a challenge of the state's privatization statutes. The contracts represent annual value of \$120 million, however, the likelihood of a resulting liability and the related amount cannot be estimated.

Rocky Mountain HMO has sued the state alleging that the state's managed care rates are incorrect. The



complaint seeks \$13.5 million in damages and attorney fees.

The U.S. Environmental Protection Agency has, in several instances, either sued the state or given notice of the state's potential responsibility under CERCLA. This includes the School of Mines as well as other non-state parties. Issues have arisen because of costs associated with the cleanup of hazardous substances at several sites owned by the state. The governor, the Department of Public Health and Environment, the School of Mines, and the Office of Attorney General have entered an agreement to manage the problem on a statewide level. The General Assembly has appropriated funds for remediation.

The United States and the State of Colorado have sued and been counter-sued by an individual regarding the environmental clean up of the Summitville Superfund Site in southern Colorado. The counter-suit does not specify damages. However, the Environmental Protection Agency and the State of Colorado have expended approximately \$94 million in the clean up.

At June 30, 1999, the Lottery Division of the Department of Revenue had outstanding annuity contracts of approximately \$708.9 million in the name of lottery or lotto prize winners. The probability is remote that any of the sellers of these contracts will default, and thus, require the state to pay the annuity.

Various notes and bonds have been issued by state school districts that may impact the state. Colorado statutes provide that if a district indicates that it will not make the payment to bondholders by the date on which it is due, the state treasurer shall forward the amount necessary to make the payment to the paying agent. The state shall then withhold state equalization payments to the defaulting school district for a period up to 12 months to cover the state's loss. Currently, notes or bonds valued at over \$4.01 billion are outstanding. Of this amount, \$2.75 billion is covered by private insurance.

The Colorado Department of Transportation is in the process of remediating its underground fuel storage tanks. The department has estimated that its future costs will be approximately \$20 million, and the process will not be completed until the year 2010.

The State of Kansas has sued the state in the U.S. Supreme Court for alleged violations of the Arkansas River Compact. The case was bifurcated into a liability and a remedy phase. The Supreme Court ruled in favor of Kansas in one of its three claims. The case is now before a special master to decide the appropriate remedy. Kansas is claiming damages of \$78 million plus costs and attorney fees; however, it is anticipated that the damage award will be substantially less than the Kansas claim.

A class action suit has been brought against the state seeking damages of \$703 million – equal to the sales tax refund for Fiscal Years 1996-97 and 1997-98. The suit alleges that the refund program violates interstate commerce, equal protection and privileges, and immunity clauses of the U.S. Constitution. It also alleges that the TABOR amendment, under which the refund was made, violates the equal protection and due process clauses of the Colorado Constitution.

The state has been sued in connection with a land transfer from the Department of Natural Resources to the Department of Corrections for expansion of the Rifle Correctional Center. The plaintiffs claim that federal land and water conservation funds were illegally diverted to state prison purposes. The state is awaiting a decision from the court.

A class action suit has been brought on behalf of minor children who attend public schools within the state. The complaint alleges that the statutory method of funding capital expenditures for public schools denies the student class constitutional rights guaranteed by the equal protection, due process, and educational clauses of the State Constitution. Should the court find that the present school capital finance system does not meet the adequacy requirements of Article IX, Section 2 (Education Clause) of the State Constitution, the state could incur substantial future costs to overhaul the school finance system.

The state believes it has a good chance of prevailing in these cases, but the ultimate outcome cannot presently be determined. No provision for any liability that may result has been made in the financial statements.

## NOTE V. PENSION SYSTEM AND OBLIGATIONS

### A. PLAN DESCRIPTION

Virtually all State of Colorado employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability.

#### Administration of the Plan

The plan, a cost-sharing multiple-employer plan, is administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931, and it includes the State and School Division Trust Fund, the Municipal Division Trust Fund, and the Judicial Division Trust Fund. The authority to establish or amend plan benefits is retained by the General Assembly in accordance with Title 24, Article 51 of the Colorado Revised Statutes (CRS).

The state plan, as well as the other divisions' plans, are included in PERA's financial statements which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado, 80203.

#### Service Requirement and Termination

Employees who terminate before meeting the required years of service are refunded their contributions made to the plan plus interest. Employees terminating after meeting the service requirements may, if they desire, remain in the plan until eligible for retirement. Those withdrawing from the plan receive their contributions, interest on their contributions, plus an additional 25 percent of their contribution and interest. This terminates their individual accounts. The interest rate paid is set at 80 percent of the PERA actuarial investment rate.

#### Defined Retirement Benefits

Plan members are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service, or at age 65 with 5 years of service. State troopers and Colorado Bureau of Investigation (CBI) officers are eligible for retirement benefits at the following age and years of service; any age – 30, 50 – 25, 55 – 20, and 65 – 5.

Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit. Service retirement benefits are calculated at 2.5 percent of HAS for each year of service up to a maximum of 40 years.

Reduced service retirement benefits are available at the following age and years of service; 50 – 25, 55 – 20, and 60 – 5. The benefit is calculated similarly to a service retirement benefit; however, it is reduced by percentages that vary from 0.25 to 0.5, depending on age and years of service, for each month before the eligible date for the full service retirement.

#### Money Purchase Retirement Benefit

A retiring member may elect to withdraw their PERA account and receive an additional matching amount equal to 50 percent of their contribution plus interest, or receive a lifetime benefit based on the amount the member could withdraw. The withdrawal or the lifetime benefit is in lieu of the defined benefit.

#### Disability and Survivor Benefits

Beginning January 1, 1999, PERA adopted two types of disability programs. Disabled members who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may apply for disability benefits. If the member is not totally and permanently disabled, they are provided reasonable income replacement through a third party insurance carrier and rehabilitation or retraining services. If the member is totally and permanently disabled they receive disability retirement benefits projected to age 65 but generally limited to 50 percent of HAS.

If a member dies before retirement, their eligible children under the age of 18 (23 if a full-time student) are entitled to a single payment or monthly benefit payments. If there are no eligible children, the member's spouse is paid the monthly benefit, and absent an eligible spouse or children over the age of 23, the financially dependent parents receive a survivor benefit. The named beneficiary and the member's estate are next in line to receive the survivor benefit.

### B. FUNDING POLICY

Members and employers are required to contribute to PERA at a rate set by statute. The contribution requirements of plan members and affiliated employers are established under Title 24, Article 51, Part 4 of the Colorado Revised Statutes as amended. Members are required to contribute 8 percent of their gross salary, except for state troopers and CBI officers, who contribute 11.5 percent. Annual gross covered wages subject to

PERA are gross earnings less any reduction in pay to offset employer contributions to the state sponsored IRC 125 plan established under Section 125 of the Internal Revenue Code.

The state contribution rate from July 1, 1998 to June 30, 1999 was 11.4 percent (13.1 percent for state troopers and CBI officers) of the employee's gross covered wages with 10.6 percent allocated to the employees retirement account and the remaining .8 percent allocated to the Health Care Fund (See Note V-E). The state made retirement contributions of \$184.9 million, \$175.5 million, and \$169.4 million, in Fiscal Years 1998-99, 1997-98, and 1996-97, respectively. The amounts do not include the Health Care Fund contribution and for each year were equal to the required contribution.

### C. OTHER RETIREMENT PLANS

#### Primary Government

Some employees of various institutions of higher education may be covered under other retirement plans. Presidents, deans, professors, and instructors in state educational institutions are enrolled in defined benefit plans such as the Teachers Insurance and Annuity Association, the Variable Annuity Insurance Corporation, or other similar plans.

Faculty members at the University of Colorado are also under Social Security. Faculty members at Colorado State University were covered exclusively by PERA until May 1993. Faculty members hired after that time are covered by one of several defined contribution plans. Faculty previously covered by PERA had the choice of converting entirely to the defined contribution plan or remaining in PERA for their service until May 1993, with service after that time credited to the defined contribution plan.

The state made contributions to other pension plans of \$27.9 million and \$26.2 million during Fiscal Years 1998-99, and 1997-98, respectively. In addition, the state paid \$37.1 million and \$34.4 million in FICA or Medicare taxes on employee wages during Fiscal Years 1998-99, and 1997-98, respectively.

PERA offers a voluntary 401(k) plan entirely separate from the defined benefit plan. PERA members may make contributions of up to 23 percent of their annual gross salary, to a maximum of \$10,000. Contributions and earnings are tax deferred. On December 31, 1998, the plan had net assets of \$362.9 million and 20,112 accounts.

The Fire and Police Pension Association, a related party, was established to insure the financial viability of local government pension plans for police and firefighters. In Fiscal Years 1998-99 and 1997-98, the state treasurer transferred \$28.5 million and \$28.4 million to the association to enhance its actuarial soundness. This included the state's cost for the accidental death and disability insurance policy the association provides to volunteer firefighters.

#### Defined Contribution Plan

On July 1, 1998, the state began providing a defined contribution plan for certain employees identified in statute. The plan is authorized in Title 24 Article 54.7 of the Colorado Revised Statutes, and it is established and administered by the five-member Defined Contribution Retirement Committee. Changes to the plan must be consistent with the authorizing legislation. The state is the sole contributing employer of the plan.

The following classes of state employees are covered; legislators, elected state officials and their deputies, department executive directors appointed by the governor, members of the Public Utilities Commission, employees of the governor's office not covered by the state personnel system, and employees of the Senate or House of Representatives. Participation in the plan by eligible employees is voluntary; however, a participant cannot also be an active member in the Public Employees Retirement Association (PERA). At June 30, 1999, 117 state employees were participating in the defined contribution retirement plan.

The plan provides benefits to participants through purchased annuity contracts or certificates; both of which are required to be fully portable.

Contributions to the plan are set in statute as a percent of salary, and they are required to be the same as the contributions to the defined benefit plan administered by the PERA. During Fiscal Year 1998-99, the state contribution rate was 11.4 percent and the employee was required to contribute 8 percent of gross covered wages.

The financial statements of the Defined Contribution Plan are prepared on the accrual basis in accordance with NCGA Statement 1 and Governmental Accounting Standards Board Statement 25. The Plan recognizes member and employer contributions as revenues in the period in which the employee is compensated. Investments are reported at fair value.

The Plan had the following concentrations of investments greater than five percent:

INVESTMENT	BALANCE	PERCENT
MFS Investors Growth	\$67,028	16%
Vanguard Index 500	63,215	15%
Vanguard Asset Allocation	59,310	14%
Valic Fixed Fund	50,389	12%
T. Rowe Price Small Capitalization	41,007	10%
Templeton World One	25,693	6%
MFS Investors Trust	24,616	6%
MS Large Company Growth	24,519	6%
Other	63,843	15%
Totals	<u>\$419,620</u>	<u>100%</u>

### Component Units

Employees of the Colorado Uninsurable Health Insurance Plan, and the Colorado Water Resources and Power Development Authority are covered under the State and School Division of PERA. (See Note V-A)

The University of Colorado Hospital Authority participates in two retirement plans, which cover substantially all of its employees. The hospital maintained a noncontributory defined benefit pension plan for its employees through March 1995. Under this plan, contributions credited to each covered employee's account were based on a percentage of compensation earned by the employee. Vesting under this plan is based on length of service. Benefits are payable as a lump sum upon retirement or separation or under several annuity options upon retirement.

As of March 31, 1995, a final contribution was credited to the accounts of all covered employees of record on that date, and this plan was frozen. Employee accounts continue to accrue interest based on the Thirty-Year Treasury Constant Maturities rate, and covered employees not fully vested in this plan will continue to earn credit toward vesting under a new plan. As the hospital acts in a fiduciary capacity for this plan and has the ability to amend the plan at its discretion, the plan's assets and related reserves are included in the financial statements as a pension trust fund.

As of April 1, 1995, the hospital amended its retirement plan based on its ability to withdraw from the Old Age, Survivors, and Disability Insurance (OASDI) component of the Federal Insurance Contributions Act (FICA) by virtue of its operation under legislatively granted state authority. The hospital and its employees still contribute to and participate in the Medicare component of FICA. The hospital's amended plan is composed of three distinct components: a Basic Pension Plan, an Investment Account, and a Matching Account.

The Basic Pension Plan is a defined benefit plan with benefits payable based on length of service and average compensation earned by the employee during the five most highly compensated calendar years of service after 1994. Vesting under this component is based on length of service. The hospital's funding policy is to contribute amounts at least equal to the minimum funding requirements of ERISA.

The hospital made contributions of \$4.80 million and \$6.30 million to its defined benefit plans in Fiscal Years 1998-99 and 1997-98, respectively. The actuarially computed net periodic pension cost for this plan was \$4.86 million and \$5.32 million for those years. According to the unaudited actuarial report, the hospital met the annual required contribution in each of the past four fiscal years. Actuarial value of the plan assets was \$54.5 million and \$45.1 million for Fiscal Years 1998-99 and 1997-98, respectively. Excluding U.S. Treasury securities, the plan had two investments where the fair value exceeded five percent of the plan net assets; MAS Pooled Fund Value Institutional Portfolio #22 – \$10.1 million, and Glenmede International Portfolio Fund – \$9.7 million.

The Investment Account is a qualified defined contribution retirement plan under the provisions of Internal Revenue Code (IRC) Section 401(a). Employees are required to contribute 6.2% of their gross compensation, which is equivalent to what their OASDI contributions were under FICA participation. Employees are always fully vested in this component of the plan. Total compensation covered in this plan for the years ended June 30, 1999 and 1998 was approximately \$90.9 million and \$82.8 million, respectively. The hospital is required by law to provide an additional make-up contribution for certain part-time employees equal to 1.3% of their compensation until they are fully vested in the Basic Pension Plan. Since April 1, 1995, make-up contributions made by the hospital have approximated \$104,000.

The Matching Account is a qualified single-employer tax-deferred annuity plan under the provisions of IRC Section 403(b). Employees are eligible to contribute a percentage of their gross compensation, tax-deferred up to legal limitations established under the IRC. In addition, the hospital matches employee contributions 100% on the first 3% of gross compensation contributed. Employees are always vested 100% in their contributions; however, the hospital's matching contributions are subject to a five-year vesting schedule. The hospital's matching contributions for Fiscal Years 1998-99 and 1997-98 were approximately \$1.7 million and \$1.6 million respectively.

The hospital has contributed to PERA in accordance with actuarially determined funding amounts for their employees who are still state employees. Pension expense related to state employees was \$240,000 and \$282,000 for Fiscal Years 1998-99 and 1997-98, respectively. There were no transfers from PERA to the hospital's pension plan for previous state employees who have transferred their benefits to the hospital's pension plan for the years ended June 30, 1999 and 1998.

#### **D. EMPLOYEE DEFERRED COMPENSATION**

The state initiated a deferred compensation (457) plan for state employees in 1981. This plan uses a third party administrator, and all costs of administration and funding are borne by the plan participants. Due to changes in the Internal Revenue Code and state statute, the deferred compensation plan that was previously reported in an agency fund is now reported in an expendable trust fund. The assets of the plan are not assets of the state, but are held in trust for the exclusive benefit of plan participants and their beneficiaries. Fund equity of the plan at June 30, 1999, was \$327.6 million. Investments and accumulated earnings of the plan at June 30, 1998 totaled \$288.1 million. The state has no liability for losses under the plan but does have the duty of due care that is required of a fiduciary agent.

#### **E. POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS**

##### Health Care Program

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985

established the Program and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During 1998, the subsidy was \$115.00 for those with 20 years of service credit and reduced by \$5.75 for each year under 20.

The Health Care Fund is maintained by a contribution of 0.8 percent of covered salary. The state paid \$14.0 million, \$13.1 million, and \$12.5 million in Fiscal Years 1998-99, 1997-98, and 1996-97, respectively. Monthly premium costs for participants depend on the health care plan selected, the number of persons being covered, Medicare eligibility, and the number of years of service credit a retiree has. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans, and with health maintenance organizations providing services within Colorado. As of December 31, 1998, there were 30,291 participants, including spouses and dependents, from all contributors to the plan.

##### Life Insurance Program

PERA provides its members access to two group decreasing-term life insurance plans offered by Prudential and Rocky Mountain Life. Active members may join one or both plans, and they may continue coverage into retirement. Premiums are paid monthly by payroll deduction.

##### Other Programs

Separate post-retirement health care and life insurance benefit plans exist in some state colleges and universities but are small in comparison to the PERA plan for state employees. The state has no liability for any of these post-retirement health care and life insurance plans.

**NOTE VI. SUBSEQUENT EVENTS**

**A. PENSION PLAN CHANGES**

Senate Bill 90 passed in the 1999 legislative session made the following changes to the public employees' pension plan.

Effective July 1, 1999, in addition to their contributions and interest, terminating Public Employees' Retirement Association (PERA) members will receive matching payments equal to 50 percent of their contributions plus interest if under age 65 or not eligible for retirement and 100 percent of their contribution plus interest if age 65, eligible for retirement, or upon the death of a member.

At the later of January 1, 2001, or upon full amortization of PERA's unfunded liability, employers can match employees' contributions to defined contribution plans and reduce their contribution rates to the defined benefit plan as provided in the act.

Effective July 1, 1999, the contribution rate for state troopers is reduced from 11.5 percent to 10 percent.

Effective July 1, 1999, PERA is to establish a Health Care Trust Fund. The employer contribution to the fund will increase from 0.8 percent to 1.1 percent with a similar decrease to the employer contribution to the defined benefit pension trust fund.

Effective July 1, 2000, the subsidy for pre-Medicare retirees with 20 or more years of service will double from \$115 to \$230.

**B. LIGHT RAIL COMMITMENT**

The Auraria Higher Education Center committed to contribute \$500,000 to the Regional Transportation

District (RTD) for additional funding of an extension of RTD's light rail line to Coors Field in lower downtown Denver. An existing light rail line serves the Auraria Higher Education Center.

**C. BONDING AUTHORIZED**

On November 2, 1999, Colorado voters passed a measure referred to the ballot by the state legislature. The measure authorizes the state to issue \$1.7 billion in bonds, with a maximum payback cost of \$2.3 billion, to accelerate selected state highway construction projects. The state is to repay the bonds and related debt service from anticipated federal transportation revenues. The bonds are not considered general obligation debt due to language that limits the state's legal responsibility for repayment.

**D. BOND DEFEASANCE**

**Component Units**

On August 1, 1999, the Denver Metropolitan Major League Baseball Stadium District entered an agreement with the Metropolitan Football Stadium District and other parties to defease its outstanding bonds prior to January 1, 2001. The agreement is contingent upon availability of funds and legal and tax-exemption determinations. If the agreement is consummated, the District has agreed to take all actions necessary to end the Denver Metropolitan Major League Baseball Stadium District sales tax on January 1, 2001.